Annual Report

Improving performance
to keep industry moving

2022

Hardide plc

Hardide plc
Annual Report 2022

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

Highlights

Financial

£5.0m

Revenue increased by 39% to £5.0m (FY21: £3.6m)

37%

Gross margin improved to 37% (FY21: 36%)

£(0.9m)

Significant reduction in the EBITDA loss to £0.9m (FY21: £1.5m loss)

£(2.3m)

Statutory loss before tax of £2.3m (FY21: £2.9m)

£0.5m

Fundraising in September 2022 raised £0.5m to support working capital requirements. Further initiatives to improve the Group's financial position and to provide further working capital have continued in the new financial year

£0.7m

Cash at bank at 30 September 2022 of £0.7m (FY21: £1.5m).

Commercial

Strong revenue growth was achieved across all end-use market sectors:

- Energy (representing 57% of FY22 sales): 72% increase overall, comprising 54% increase to the oil & gas sector and an over six-fold increase to power generation, including new business coating turbine blades
- Industrial (representing 39% of FY22 sales): 10% increase including increased demand from a manufacturer of industrial pumps
- Aerospace (representing 4% of FY22 sales): 24% increase in sales to the aerospace sector, with production orders now regularly being received for the Airbus A320, A330, A380 and A400M series aircraft
- In addition, the Company is pursuing significant business development opportunities in the green energy and electric vehicle (EV) markets, including wind and solar power, hydrogen generation and battery production applications

FY23 Developments

- Full supplier approval received from Leonardo Helicopters to coat flying parts. First production orders received for helicopter transmission system components
- Purchase, sale and leaseback completed of the Martinsville facility in the USA, generating £0.5m cash in December 2022
- The Board has recently implemented a series of working capital efficiency and cost reduction initiatives that are expected to generate a further £0.3m-0.4m of cash during in the first half of the current calendar year, providing additional headroom, improving profitability, and helping to underpin delivery on expectations for the financial year to 30 September 2023. Opportunities to further strengthen the balance sheet are also being considered
- The Group maintains strong cost discipline and is focused on moving toward organic cash generation

Strategy

- Following a recent strategic review, the Board is executing a two-stage approach:

  a. Focus on becoming profitable and cash generative. This will be driven mainly by increased sales to existing and new customers, utilising proven coating technology and existing production capacity, thereby benefiting from the Group's strong operational gearing; and

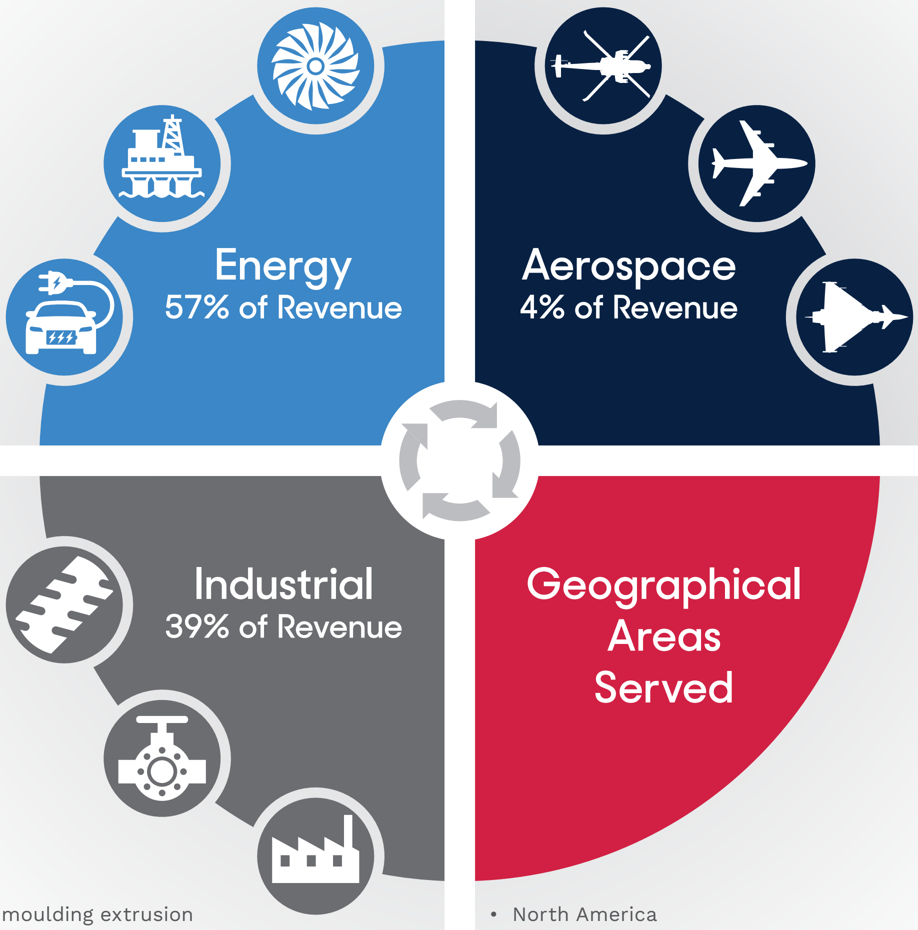
  b. Developing opportunities to drive significant value for shareholders and other stakeholders over the medium to longer term through further development and commercialisation of the Group's unique, high performance coatings technology, including co-operation with other coatings companies.

Note: EBITDA excludes depreciation and amortisation of owned assets £0.9m (FY21 £0.9m), depreciation of right of use assets £0.3m (FY21 £0.3m), net financing costs of £0.1m (FY21 £0.1m), and share based payment charges £Nil (FY21 £0.2m).

Hardide at a Glance… Applications and End Uses

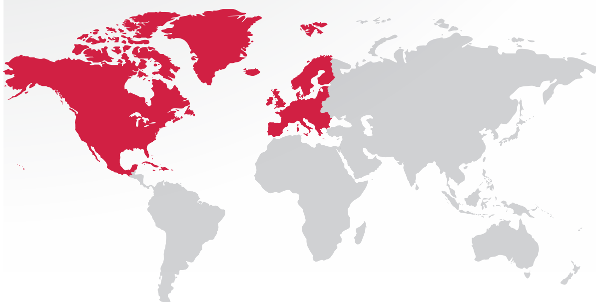
- Oil & gas directional drilling tools
- Well stimulation tools
- Oil & gas production components
- Sand control systems
- Coating of industrial diamonds for wear parts
- Silicon production for solar cells
- Production of EV batteries
- Hydrogen production and storage systems
- Power generation steam and gas turbine blades

- Eurofighter Typhoon canopy locking system
- Airbus wing/flap components
- F35 Joint Strike Fighter components
- Helicopter transmission systems
- Aircraft door and control system actuators
- Undercarriage/landing gear
- General hard chrome replacement



- Injection moulding extrusion feeder screws and dies
- Airport high speed X-ray screening machines
- Severe service valves and pumps
- High volume positive displacement pumps
- Rotors and shafts
- Closed and open face impellers
- Sleeve bearings
- Hydrodynamic bearings
- Complex 3D printed parts

- North America
- Europe



Hardide at a Glance… Locations

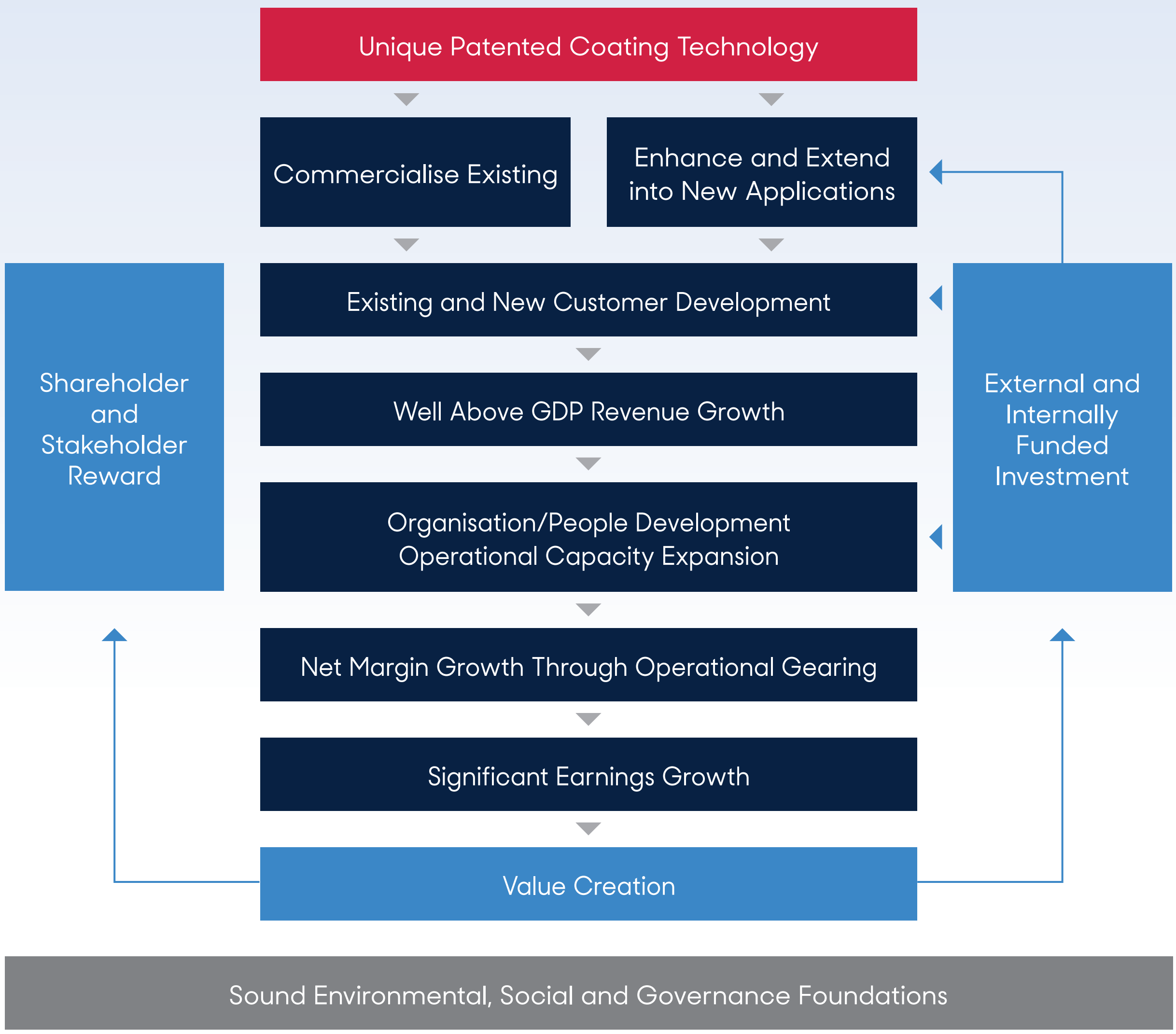
Bicester, UK

20,000 sq. ft. custom-fitted production facility in Oxfordshire, UK. Five coating reactors are installed including the reactor for the coating of larger components up to 1.5m in length. The site has Nadcap Gold Merit status, and AS 9100D and ISO 14001 accreditation.

Martinsville, USA

26,000 sq. ft. production facility in Virginia, USA with four standard size coating reactors servicing customers in the energy and industrial sectors in North America. The four acre site was purchased, sold and leased back by the Group in December 2022. The site holds ISO 9001 and AS 9100D certification.

Hardide Business Model



Hardide Strategy

Timeline	Organic	Partnerships	Inorganic	Financial Performance
Short Term	Value creation through growth driven by business model	Collaboration with coatings companies and other strategic partners		EBITDA break-even Earnings per share positive
Medium Term		Potential business combinations, market consolidation, synergy		Strong value creation
Longer Term			Potential for earnings, enhancing synergistic acquisitions	

Chair's and CEO's Report

The Board is pleased to report the Group's annual results for the 2022 financial year. Revenues increased by 39% from FY21, recovering to pre-pandemic (FY19) levels of £5.0m. Revenue growth was led by the oil & gas sector as the market began to recover from the downturn during the COVID-19 pandemic.

The combination of strong revenue growth and operational gearing led to a significant reduction in EBITDA loss to £0.9m for the year, compared with the prior year equivalent of a £1.5m loss.

The improvement in revenues has continued in the current financial year, with revenues in the first quarter ahead of the same period last year.

Strategy

Following a recent review, the Board is executing a two-stage strategy:

a. Focus on becoming profitable and cash generative. This will be driven mainly by increased sales to existing and new customers, utilising proven coating technology and existing production capacity, thereby benefiting from the Group's strong operational gearing; and

b. Developing opportunities to drive significant value for shareholders and other stakeholders over the medium to longer term through further development and commercialisation of the Group's unique, high performance coatings technology, including co-operation with other coatings companies.

Operational Overview

Customers and Markets

The mix of revenue to our main markets during the year was:

- Energy: 57% (including oil & gas and power generation)
- Industrial: 39%
- Aerospace: 4%

Energy

Sales to energy customers increased by 72% during FY22, including a 54% increase in sales to oil & gas customers. While recovery of demand from our traditional oil & gas customers is strong, it has taken longer than expected to be reflected in our sales due to supply chain delays caused by the shortage of raw materials and labour available to manufacture customers' parts.

Of particular note is that we successfully completed laboratory and field tests for a major European oil & gas company with excellent results demonstrating that the use of Hardide coating will provide longer-lasting 'nodding donkey' type land-based pumps. The 139-day field test showed no signs of wear, scratches or material loss on the parts. Post-period, large batch parts have been coated for operational field testing. Production orders are expected on successful completion of these tests in the current financial year. The broader market potential for an extended-life version of this well-established technology is considerable.

Further orders are expected in FY23 for the coating of wire mesh used in a new coated sand screen. Chevron Corporation published an exceptionally detailed conference paper in October 2022, at the prestigious SPE Annual Technology Conference and Exhibition in Houston, USA, reporting that the Hardide-coated sand screen achieves a 4x-6x increase in erosion performance and a 10x reduction in corrosion rate as compared to conventional premium sand screens. Over 3,000 feet of these coated sand screens have been deployed in wells to date, with more planned in 2023. This impressive performance is only possible because the unique properties of the Hardide coating mean that it is possible to coat the individual wires which comprise the multi-layer woven metal mesh. Developments are underway with other major companies on similar sand control applications.

Good progress has been made in diversifying the oil & gas customer base with sales spread across a broadening number of customers and with not one dominating divisional revenues.

The IEA World Energy Outlook 2022 cites global demand for energy from oil & gas continuing to grow to 2030, while renewable sources are forecast to account for nearly 50% of electricity generation. Concurrently, industry and governments are committing to transition from fossil fuels and reach net-zero targets. This evolution will provide additional opportunities for Hardide in the oil & gas and alternative energy sectors. The Group is pursuing these with vigour.

Alternative Energy

It is a strategic objective for the Group to increase the proportion of revenue generated from the alternative energy sector. Promising progress with development projects is being made, particularly in hydrogen applications.

Several Hardide coating variants were tested at Cranfield University involving a process for the manufacture of 'green' hydrogen. The results are encouraging and details of the testing are confidential to maintain patentability of the application. A grant has been awarded by the Henry Royce Institute to fund further testing. In another hydrogen application, a customer is testing the permeability of the Hardide coating for use on components in a hydrogen compressor. Subject to positive results, this opens up a large range of opportunities for Hardide coatings in hydrogen storage and distribution.

The increase in sales expected to our manufacturer of products for the solar cell industry has been lower than expected in FY22 due to the exceptionally high energy prices. Demand for their product is increasing and they have already expanded capacity and expect to ramp-up production in 2023. Sales of our coating on its components will increase directly in line with their production volumes.

Power Generation

Two high-value production orders of coated gas turbine blades were delivered to Ansaldo Energia S.p.A. in Italy and repeat orders are expected in 2023. Developments are also underway on additional applications.

Currently, the Group is working on projects with five power generation companies in the UK and overseas. These are based on Hardide's recently patented coating for blades and vanes for turbines.

EDF Energy is in the process of evaluating the results of resonance tests on the Hardide-coated blades for steam turbines before proceeding to the next stage of development.

Industrial

Demand increased in this sector by 10% from FY21. This was led by a 39% increase in sales to our major industrial pump customer in North America. However, there was a reduction in revenue from the airport X-ray equipment manufacturer due to the COVID downturn. Recovery in demand for their machines has been slow but is projected to increase throughout 2023. Developments are still taking place with the large EV manufacturer on components used in the battery production process. Testing is underway on multiple industrial applications with a large customer in the Far East.

The Group has been developing opportunities in South Korea following a trade visit organised by Innovate UK in October 2019 and attended by the Group's Technical Director. Further progress will require local expertise and to this end, a local partner with extensive experience of selling high-value coatings has been identified and with whom the Group has now signed a marketing agency agreement.

Aerospace

Aerospace sales increased by 24% during FY22, with regular orders being received to coat components for the Airbus A320, A330, A380, A400M and the Beluga transport aircraft. Additional applications are currently in development and testing. Orders continue to be received for the BAE Eurofighter Typhoon. Further orders are expected in FY23 for the Lockheed Martin F35 Lightning II fighter. Technical discussions and trials are underway with several other OEM and maintenance, repair and operations ("MRO") companies for applications including landing gear, door mechanisms and peripheral engine components.

In its Global Services Forecast for 2022-2041, Airbus expects aftermarket maintenance activity to recover to pre-pandemic levels in 2023 and to double in value to $230bn over the next 20 years. Over this time, we expect that many additional applications for Hardide will be approved. Airbus has also increased its 20-year delivery forecast outlook in support of a firm market recovery.

Post-period end, the Group received full supplier approval from Leonardo Helicopters ("Leonardo") to coat flying parts. The first production order has been coated already. These are for components used in helicopter gearbox transmission systems. They are part of an existing aircraft upgrade and will reduce 'in-service' costs and extend component life. Leonardo is one of the UK's leading aerospace companies and one of the biggest suppliers of defence and security equipment to the UK Ministry of Defence. This approval is expected to open up other opportunities within the wider Leonardo Group and the broader helicopter market.

Hardide exhibited at the Singapore Airshow in February 2022 and at the Farnborough Airshow in July 2022, increasing its exposure in the aerospace sector.

Accreditations and Research & Development

In July 2022, Hardide's UK site achieved Nadcap Gold Merit status, the highest accreditation available for commitment to continual improvement in aerospace quality. The UK site was also re-certified to environmental standard ISO 14001 for a further three years.

Fundamental experimental work on the development of a new coating variant that would open additional markets for Hardide has been completed. Preliminary assessment has shown the new coating could be patentable. Further development work will be necessary to scale-up and characterise the coating and the Group is looking to secure grant funding for this.

Intellectual Property

Our most recent patent covers the enhanced Hardide coating with improved mechanical properties and its new applications, including turbine blades and vanes. This has been granted in the UK and registration of the equivalent patent is progressing in 10 leading industrial countries.

Sustainability and ESG

On completion of the move to the new UK site in 2020, targets were set in FY21 to reduce emissions per £m of sales by 15% from this baseline year. In FY22, these targets were exceeded considerably on every measure. More broadly, the use of Hardide coatings contributes to the sustainability agenda by significantly increasing the operational life of coated parts, thereby reducing waste and improving efficiency for our customers. The Group is committed to high standards of ethical behaviour and strong governance. Full details are within the ESG section of the annual report.

Board and Employees

Following the financial year end, Robert Goddard, Hardide's long-serving Chair stepped down as part of a planned Board succession and was succeeded by Andrew Magson.

On behalf of shareholders and the Board, we'd like to put on record our immense thanks and gratitude to Robert for over 14 years of invaluable service and leadership to Hardide as Chair, without which the Group as we know it today would simply not exist. He leaves the business well positioned for further growth. All at Hardide wish Robert the very best for the future.

The significant improvement in Hardide's recent performance would not have been possible without the hard work and dedication of all our employees, and the Board would like to express its thanks and gratitude to everyone for their contribution to Hardide's ongoing growth and development.

Outlook

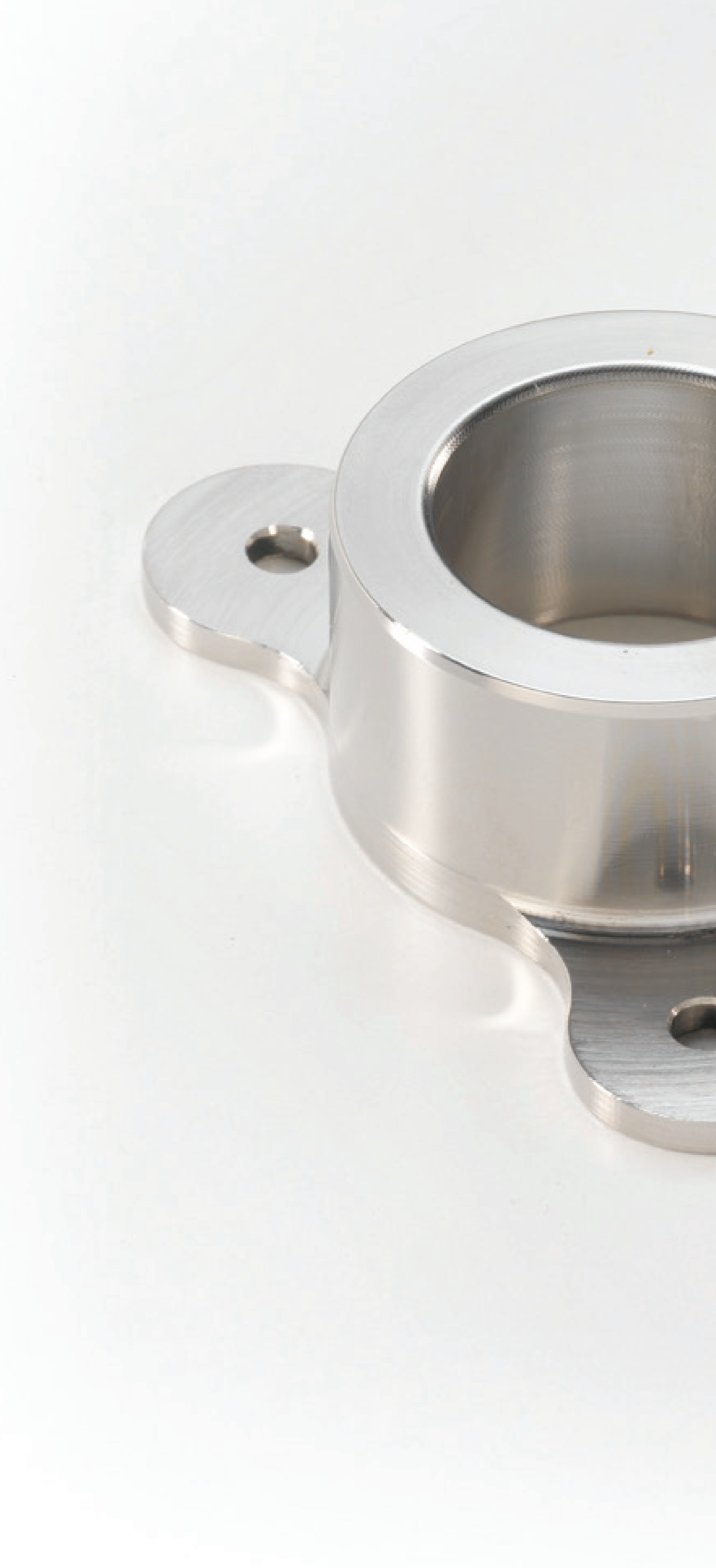
Whilst the Board is mindful of economic headwinds, ongoing cost inflation and supply chain disruption, Hardide has been successful in recovering cost increases through selling prices, and revenues continue to grow as a result of increasing customer adoption of our coatings. As evidenced by the recent action taken to improve working capital and reduce cost, the Board is focused on becoming profitable and cash generative.

More broadly, the Board is seeking opportunities to drive significant value for shareholders and other stakeholders over the medium to longer term through further development and commercialisation of the Group's unique, high performance coatings technology, including co-operation with other coatings companies.

Andrew Magson
Chair

Philip Kirkham
CEO

7 February 2023



As we grow our business in the aerospace and defence sectors, our achievement of Nadcap Gold Merit accreditation status will help to differentiate us and add to our customers' confidence in us as a partner and supplier.

Nadcap
Administered by PRI
ACCREDITED

Financial Review

Income Statement

Sales revenue recovered strongly across our key markets, increasing by 39% to £5.0m. Despite inflationary cost pressures across the supply chain, including an almost twofold increase in the cost of energy, the Group improved its Gross Margins from 36% in FY21 to 37%.

The Group's EBITDA loss was £0.9m (FY21: £1.5m loss) reflecting the increased revenues at improved gross margins.

The statutory loss before tax was £2.3m (FY21: £2.9m).

Balance Sheet

Net assets at 30 September 2022 were £5.5m (FY21: £6.9m), the reduction mainly reflecting the losses incurred during the year. Non-current assets, including right of use assets, were £7.2m (FY21: £7.7m). Hardide is well invested and therefore depreciation exceeded capital investment during the year. Capital expenditure was £0.3m (FY21: £0.3m), largely relating to upgrades to the older reactors in the UK.

Working Capital

Inventory levels were at broadly the same level as the previous year at £0.5m, despite the increase in sales. The main inventory item is process gas, and inventory movements year on year are often attributable to the timing of gas deliveries.

Trade and other receivables increased to £1.0m (FY22: £0.6m) as a consequence of the increased sales over the last two months compared to the equivalent period in 2021. The level of overdue debts was £0.1m higher than the previous year, although this related to one customer that paid shortly after the year end.

Cash Flow

The cash outflow from operating activities was £1.0m, compared to £1.9m in FY21, reflecting the improved trading performance. Capital expenditure was £0.3m (FY21: £0.3m), with the level of capital expenditure required going forward mainly associated with health and safety improvements and maintenance upgrades. There is no immediate requirement to invest in capacity in either the UK or US facilities.

The overall cash outflow for the year was £0.8m (FY21: £1.2m).

Borrowings and right of use lease liabilities, at £3.1m, remained at a similar level to FY21.

The cash balance at the end of the financial year was £0.7m (FY21: £1.5m) whilst net debt, including lease liabilities was £2.4m (FY21: £1.5m), and excluding lease liabilities was £0.4m (FY21: £0.6m net cash).

Funding

To strengthen its cash position and provide greater working capital flexibility and headroom, the Group has recently raised new funds as follows:

- £0.5m, net of expenses, through an equity fundraising in September 2022; and
- £0.5m from the purchase, sale and leaseback of our facility in Martinsville, USA, in December 2022.

In addition, the Board recently put in place a series of initiatives to improve working capital and reduce costs by £0.3m-0.4m by the end of the first half of the current calendar year. This will provide additional headroom, improve profitability, and help to underpin delivery of expectations for the financial year to 30 September 2023. Opportunities to further strengthen the balance sheet are also being considered.

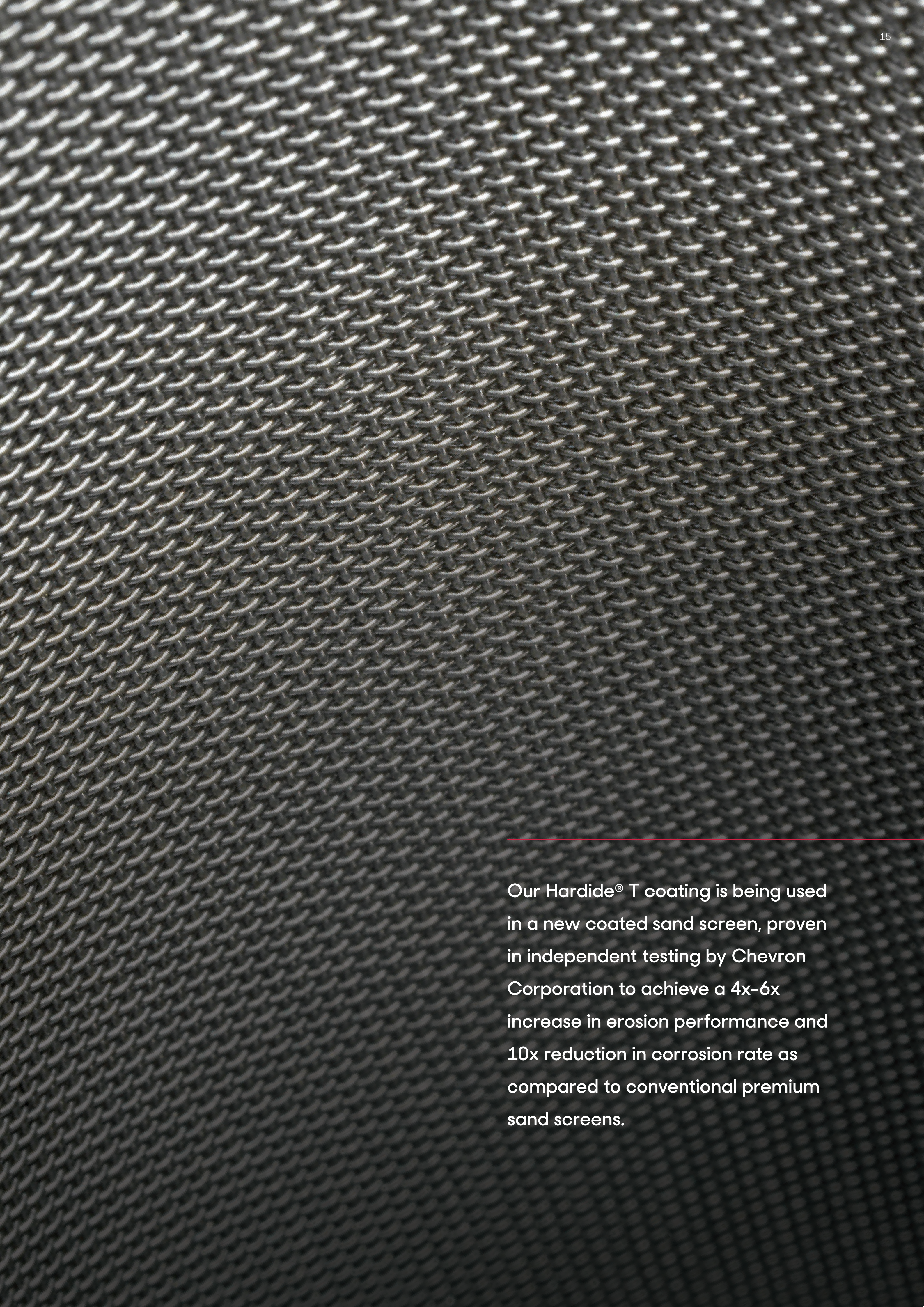
Going Concern

The directors have adopted the going concern basis in preparing the financial statements after assessing the principal risks and having considered the impact of various downside scenarios compared to the Group's base case financial plans, the pace of sales growth and the level of profit margins for a period of at least 12 months from the date of signing the Annual Report. Whilst the macro-economic position is highly volatile, making scenario planning difficult, the directors have considered various impacts on sales, profitability and cash flows and believe that the Group will have adequate resources to continue in operational existence for the foreseeable future.

The directors considered how the current economic climate, including external forecasts of lower economic growth or recession in 2023, higher interest rates and inflation, may affect the performance of the business; from the supply chain to the ability of our customers to operate. A major disruption caused by such factors would most likely result in reduced sales volumes and require significant action in relation to operational cost reductions, working capital management and control over capital investment. We considered the sensitivity of sales volume reductions over a substantial part of our 2023 financial year and also into 2024. The revenue and operational leverage impact of such a volume loss would have a significant negative impact on the performance of the Group, albeit cash would be released from lower working capital requirements and lower capital spend. The scenario modelling indicates that the Group would have sufficient cash reserves over the foreseeable future. In addition, the Group has a successful track record of raising additional equity finance, if required, to support solvency and growth. The directors therefore 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.

Simon Hallam
Finance Director

7 February 2023



Our Hardide® T coating is being used in a new coated sand screen, proven in independent testing by Chevron Corporation to achieve a 4x-6x increase in erosion performance and 10x reduction in corrosion rate as compared to conventional premium sand screens.

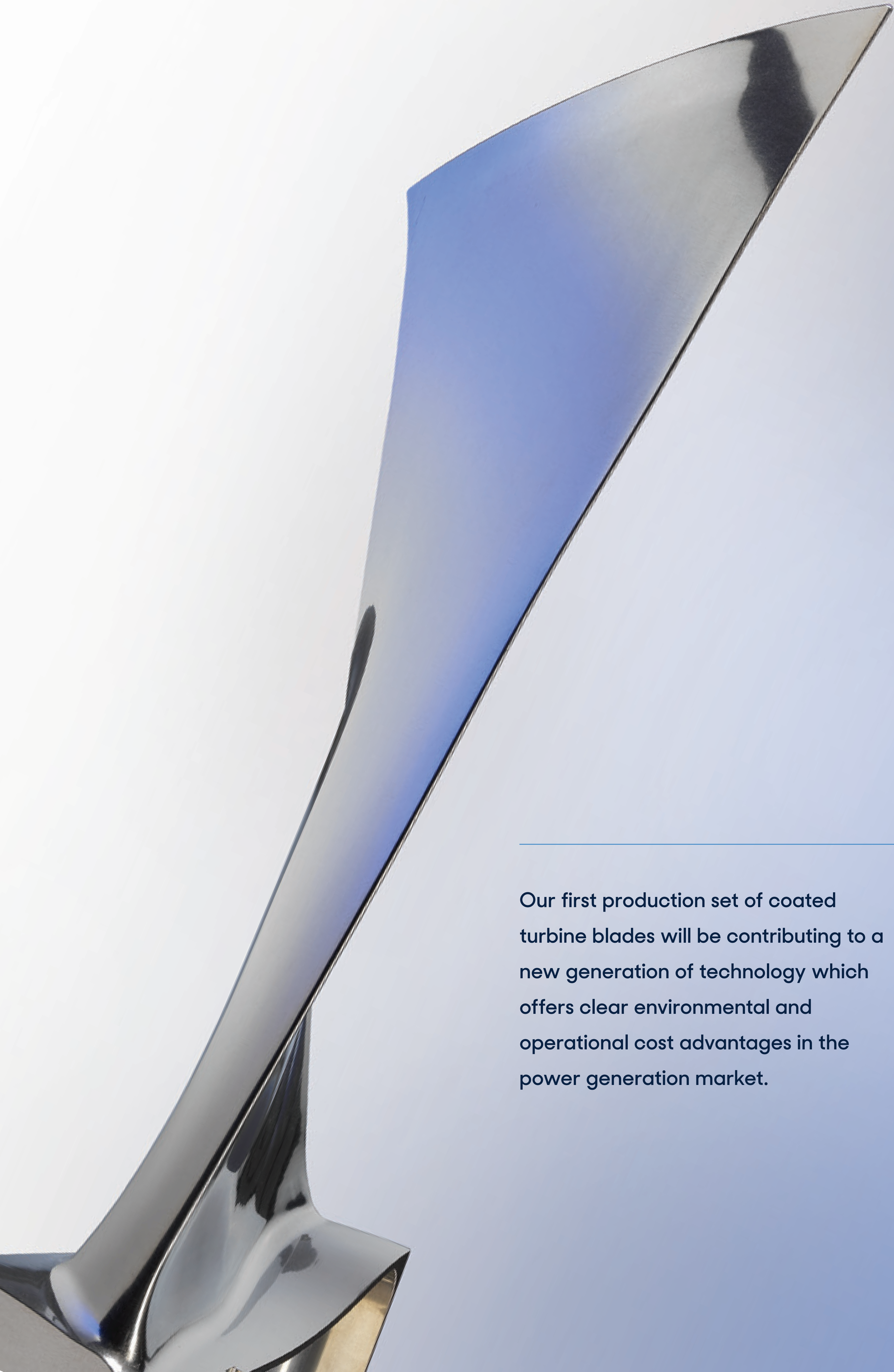
Risk Review

A summary of the Group's more significant risks and how these are managed is provided below.

Risk and analysis	Mitigation and control	Residual risk
Economic and geopolitical Changes in economic conditions (including those caused by geopolitical factors), particularly in the UK, USA and Europe and those impacting the oil & gas sector, could significantly impact Group revenues, profits and cash flows Current challenges include high cost inflation, and forecasts for economic recession in our key markets	This risk is largely outside the Group's control The Board monitors closely relevant economic, industry and customer forecasts, sets /adapts business plans and takes action accordingly The Board has a successful strategy of diversifying the customer base and broadening applications for Hardide Coatings over time, such that economic risk is increasingly diversified and any single country, industry sector or customer's performance has relatively less of an impact on the Group as it grows. However, these risks remain relatively concentrated at this time The unique nature of the Group's coating technology and the solutions provided generally means inflationary cost increases can be recovered through selling prices	High
Funding To date the Group has been loss-making. Whilst we are focused on becoming cash break-even in the shorter term, until we do so we remain dependent on outside sources of finance, mainly equity. If we lost support of shareholders and further funds were needed but not forthcoming, then the going concern status of the Group could come into question	Strong cash and cost management disciplines are embedded in the business Cash flow statements and forecasts are prepared at least monthly, with sensitivity analyses regularly reviewed by the Board and action taken accordingly Initiatives are taken by the Board regularly to improve working capital efficiency and reduce cost and improve margins as necessary, most recently in December 2022, see the Financial Review Strong relationships with key institutional and private shareholders and regular communication is maintained Track record of shareholder support for, and belief in, the business as it continues to develop	Medium/high

Risk and analysis	Mitigation and control	Residual risk
Business development and revenue uncertainties Uncertainties around new business development, customer acceptance / certification, and ongoing visibility of customer demand all impact business planning, revenue and profit forecasting Hardide technology is typically used by major multinational organisations who have first to prove the efficacy and resilience of the solution through lengthy testing and certification programmes. These can take a number of years (up to 10+ in aerospace), with no guarantee of success Once in production, end customers often buy through subcontractors. Seeking accurate forecasts of demand can therefore be challenging. Hardide has typically only a month to six weeks firm order book visibility. Revenue forecasts therefore can be subject to short term change	Much of this risk, particularly customer timing, is beyond the Group's control Careful prioritisation and internal probability analysis is undertaken before committing scarce Group resources to development projects Up front development costs mitigated / offset as far as possible through customer and /or grant funding Business development team focus on obtaining and updating customer demand information (direct and indirect) on an ongoing basis Commercial terms negotiated (eg payments in advance) to mitigate potential working capital impact of order book uncertainty / delay	Medium/high
Loss of major customers Customer concentration is improving but remains relatively high. Our top 5 customers accounted for 78% of Group revenues in FY 2022. Therefore, the loss of a major customer would be significant to the Group's performance	Our business development managers and CEO retain close contact with all customers and potential customers Once Hardide coating technology has been rigorously tested and proven to provide a specific solution to meet customer needs, business tends to be retained provided service remains strong as switching costs are high	Medium
Loss of key employees Hardide has a workforce of c.45 people across two operating locations. The unique nature of our coating technology and production process, together with the small size of the company, means know-how in many roles is key The current cost of living crisis caused by high inflation and rising interest rates presents a real challenge for the Group in seeking to assist employees whilst the business remains loss making	We have a loyal workforce, many of whom are long serving Employee turnover rates are well below industry averages The Group culture fosters regular communication, openness and employee involvement, with a sense of belonging A winter energy support payment has been given to all staff	Medium
Supply chain capacity and disruption The Group's two principal / critical manufacturing inputs are a tungsten-containing gas and electricity. The former could become scarce, particularly if significant geopolitical and trading issues emerged; the latter has been subject to significant inflation, in part caused by the conflict in the Ukraine Energy supply restrictions could be imposed in extreme circumstances	Regular supply chain planning Alternative suppliers of the key process gas are maintained in both the UK and USA to ensure resilience Buffer stocks of the key process gas maintained, including with suppliers There is sufficient production capacity, together with ability to negotiate certain operational flexibility, such that short term power outages should be manageable	Medium

Risk and analysis	Mitigation and control	Residual risk
Loss of an operational site Hardide has two factories, one in the UK and one in the USA. Loss of either would be significantly detrimental to the Group's performance, albeit much work is interchangeable between sites and we have spare capacity at both Neither site is exposed to unusual or specific natural resource or climate risks (fire, flood, hurricane, drought etc)	Professional internal operating disciplines, health & safety procedures, and quality standards maintained at both sites (ISO9001 and AS9100). The UK site also has ISO14001 and NADCAP accreditations Regular fire risk inspections and tests with recommendations implemented Preventative maintenance regimes Insurances held by Hardide and its landlords provide monetary mitigation	Medium
IT and cyber security The Group's operations could be impacted by IT failures or cyber security breaches	The Group has both internal and outsourced IT support capability. Cyber security is managed by an external party and the Group holds the UK government sponsored Cyber Essentials Plus certification Disaster recovery plans in place and tested	Medium
Product failure / warranty Risk of liabilities / losses incurred from third party claims relating to product defect or failure	Extensive testing and certification programmes, working together with customers, largely mitigate this risk and therefore Hardide has a strong product quality record. Hardide does not warrant the performance of the coating in use, only that it meets the described technical properties Standard terms generally limit Hardide's liability to the coating price paid for the parts supplied Product and public liability insurance is in place	Medium/low
Foreign exchange Changes in currency exchange rates (particularly USD and Euro) could impact the Pounds Sterling equivalent value of transactions and also the results of US operations translated into Sterling	The Group has natural currency hedges with operations both in the UK and USA Sales into Europe are usually billed in Sterling Any significant residual transactional exposures are hedged	Medium/low
Credit Potential losses caused by non-payment of debts owed to the Group	No history of material credit loss. Pre-approval credit checks for new customers and credit limit checks prior to despatch of goods Robust credit control disciplines, good DSO performance Negotiation of credit terms including payments in advance for some customers and where there is history of late payment	Medium/low



Our first production set of coated turbine blades will be contributing to a new generation of technology which offers clear environmental and operational cost advantages in the power generation market.

The Board of Directors

Andrew Magson

Chair

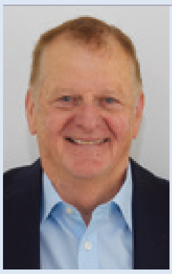
Andrew was appointed as Chair in October 2022. He is chair of the Audit Committee and the Sustainability & Risk Committee. He is a member of the Intellectual Property Committee, and the Remuneration and Nomination Committee.

Andrew has more than 15 years' experience serving on the Boards of UK public companies in the engineering, building and industrial manufacturing sectors. He was Executive Director, CFO and Company Secretary of The Alumasc Group plc between 2006 and 2020 where he worked with the Board to deliver Alumasc's strategic transformation from a diversified industrial group into a growing, sustainable building products business. Prior to that, Andrew was Group Financial Controller at BPB plc, where he also worked internationally in M&A and operations at the time when BPB grew to become a FTSE 100 company.

Andrew spent his earlier career at PwC in London where he qualified as a Chartered Accountant, gaining significant corporate finance, audit and corporate governance experience. He holds a Business degree from The University of Bath.

Current external appointments: Non-Executive Director and Chair of the Audit Committee at Renold plc. Pension Trustee and Chair of the Pension Investment Committee at The Alumasc Group plc.

Philip David Kirkham



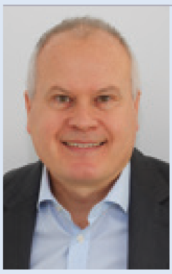
Chief Executive Officer

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 and Fellow of the Institute of Chartered Accountants in England and Wales.

Current external appointments: None

Dr Yuri Nikolaevich Zhuk

Technical Director

Yuri is a co-founder and Technical Director. He is chair 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.

Timothy Julian Rice

Non-Executive Director

Timothy was appointed Non-Executive Director on 20th March 2018. Tim is chair 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: Trustee - Insight Gloucestershire, Director - The International Centre for Birds of Prey.

Andrew Richard Boyce

Non-Executive Director

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

Andrew represents a significant family shareholding with a 13.3% 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.

Report of the Directors

Results

The Group loss for the period, after taxation, amounted to £2,188,000 (2021: £2,802,000 loss). The directors have declared that no dividends will be paid in respect of the 2022 financial year (2021: 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.

	Appointed	Resigned	**30 September 2022** **Number of ordinary 4p shares**	30 September 2021 Number of ordinary 4p shares
Andrew Magson	24 October 2022		**-**	-
Robert Goddard	28 January 2008	24 January 2023	582,058	471,532
Andrew Boyce	18 June 2012		1	1
Tim Rice	20 March 2018		27,625	27,625
Philip Kirkham	1 September 2012		183,461	117,672
Yuri Zhuk	14 March 2005		190,420	166,736
Simon Hallam	21 April 2020		10,526	-

In addition to the share Andrew Boyce holds in his own name, he also represents family and associated entities totalling 7,830,335 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 Group financial statements in accordance with applicable law and UK adopted international accounting standards and the parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards, including Financial Reporting 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice). 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 UK adopted international accounting standards 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.

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 various downside scenarios compared to the Group's base case financial plans, the pace of sales growth and the level of profit margins for a period of at least 12 months from the date of signing the Annual Report. Whilst the macro-economic position is highly volatile, making scenario planning difficult, the directors have considered various impacts on sales, profitability and cash flows and believe that the Group will have adequate resources to continue in operational existence for the foreseeable future.

The directors considered how the current economic climate, including forecasts of lower economic growth or recession in 2023, higher interest rates and inflation, may affect the performance of the business; from the supply chain to the ability of our customers to operate. A major disruption caused by such factors would most likely result in lost volumes and require significant action in relation to operational cost reductions and additional working capital. We considered the sensitivity of volume reductions over a substantial part of our 2023 financial year and also into 2024. The revenue and operational leverage impact of such a volume loss would have a significant negative impact on the Group, however the scenario modelling would indicate that the Group would have sufficient cash reserves over the foreseeable future. In addition, the Group has a successful track record of raising additional equity finance, if required, to support solvency and growth. The directors therefore 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.

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. The Group's financial planning period is three years and, in the Directors' judgement there is a reasonable expectation that the Group will continue to be viable over that period and beyond.

Substantial Shareholders

At 31 December 2022 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)	8,324,720	14.1
Andrew Boyce & Associates	7,830,336	13.3
Executors of A Badenoch & Associates	5,450,000	9.3
Amati Global Investors	4,521,963	7.7
P Evershed	3,724,466	6.3
Unicorn Asset Management Ltd	3,179,608	5.4
T Simpkin	2,266,578	3.8

Section 172

The way in which the Board has performed their duties under section 172(1) of the Companies Act 2006 is set out below:

Likely consequences of any decision in the long term

The directors and senior managers participate in the Group's strategic planning process. There is an annual strategic planning meeting that looks out over three years. Progress against the strategic plan is reviewed by the Board regularly and adapted if needed.

Act in the interests of the Group's employees

In addition to their salary, staff enjoy regular health checkups and healthcare insurance. Grievances may be raised in confidence with any director. The Group's offices and production area provide an attractive space and there is adequate space in which to work. An indication of this may be found in a video of the new facilities on the website.

The CEO holds frequent staff briefings, incorporating a Q & A session and improvement proposals from staff.

Foster the Group's business relationships with customers, suppliers, shareholders and other providers of funding

The Group maintains regular contact with key customers, working closely with them to adapt Hardide's technology to meet their needs and solve problems. Likewise, the Group co-operates closely with key suppliers, the most important of which are those that supply gas and electricity for the coating process.

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 electricity 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, but the Company works frequently with its energy broker.

The Group is grateful for the continued support from shareholders in funding the business as it develops towards cash break even. The CEO, Finance Director and Chair either meet with or make themselves available to meet with shareholders at least twice a year as part of the Group's interim and annual results presentations. Shareholders are also able to meet the Board and ask questions at the AGM.

Close relationships are also maintained with the Group's bankers, landlords and providers of asset finance.

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

The commissioning of the Group's new facility in Bicester in 2020 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. Much of the new plant and equipment at the firm's new premises were optimised for environmental performance and, at the time resulted in a considerable enhancement.

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.

Act fairly between members of the Group

All shareholders are free to raise matters with the CEO, the SID and the Chair. In addition, all shareholders with 1% and over of total equity of the Group have been encouraged annually by way of a personal letter from the Chair inviting them to contact him or the SID if they have concerns.

S Hallam
Director and Company Secretary

7 February 2023

Corporate Governance Statement

Corporate Governance Code published by the Quoted Companies Alliance (the 'QCA Code')

The Group has adopted formally the QCA Code first published in April 2018 and as subsequently updated. 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 has complied with the salient aspects of the Code in the financial year ending 30th September 2022. It is expected that further enhancements may be instituted during the course of the new financial year.

The Board

Attendance at Hardide plc Board & Committee Meetings in 2021-22

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			
	Scheduled Monthly	Additional		Audit Committee[2]	Remuneration & Nomination	Risk & Sustainability	Intellectual Property
R J Goddard	12	6	1	1		4	4
P D Kirkham	12	6				4	4
S A Hallam	12	6				4	
Y N Zhuk	12	6					4
A R Boyce	12	6	1		10		
T J Rice	11	6	1	1	10		

[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.

Non-executive director only meetings

One 'NEDs-only' meeting took place in this financial year. These meetings 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 chair of the Committee, if necessary in consultation with the Group Chair. 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 Chair 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 health, safety & environmental performance, plant performance, delivery performance, research & development and sales activity. 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 Magson who was appointed on 24 October 2022, 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.

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 is not considered independent based on the third of these tests. The Board is aware therefore that the composition of the Remuneration and Nomination Committee does not comprise entirely of independent directors as set out in the QCA Code. Following the appointment of Andrew Magson to this Committee following the financial year end, independent directors do now represent a majority of Committee members. Mr Boyce's ongoing input to this Committee is considered important to its effectiveness given the perspective he brings from his substantial external Board and governance experience and alignment with Hardide shareholders' interests through his representation of family holdings in the Group. It should be noted that Mr Boyce is party to a Relationship Agreement with the Group. This assessment will be kept under review.

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 chair of the Remuneration & Nomination Committee. The chair of the Audit Committee during the year was Robert Goddard. Andrew Magson succeeded Robert Goddard as chair of the Audit Committee on his appointment to the Board and chaired the committee meeting that recommended to the Board the approval of this report and accounts.

Culture of the Board and its capability to meet new challenges

Non-executive directors have been actively and regularly consulted by the Chair 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 Chair has sought directly the views of the two other executive directors. Also, the Chair has contact with major shareholders and they are encouraged to contact him outside those meetings. The Chair 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 Chair 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 Chair 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 Chair.

The CEO and Chair 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 continuation of the process of face-to-face, one-to-one confidential meetings of the Chair 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 area aspects meriting attention. These meetings have been 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-tech 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 Chair

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 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 Chair 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 Chair; and

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

Chair:
The role of the Group's Chair 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 Chair 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 Chair 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.

It is proposed that Andrew Magson, as the incoming Group Chair, will lead a review of the Board's performance in FY23.

Range of skills and experience

A formal exercise is undertaken annually to establish the range of skills and experience among the directors as a whole, and 'mark' these against those ideally needed to achieve the Board's objectives. These include professional qualifications and practice in engineering and finance , together with relevant experience in corporate governance (including governance of public companies) and the formulation and implementation of strategy. Each director is 'assessed' against the criteria. Two of the ongoing directors have MBAs. One director has in-depth knowledge of advanced CVD coating technology. A further director is a Chartered Engineer. The Group's Finance Director and recently appointed Chair are Chartered Accountants.

[1] Yearly, the Chair writes to all identifiable 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.

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 Chair, 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 remain unchanged at £50,000 for the Chair in place at the year end, as are those for the other non-executive directors, each of whom receive £25,000. The new Chair has a fee of £60,000 from appointment. Fees are paid wholly under the PAYE system; except for Andrew Boyce whose fees are paid split between his personal service company 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 are as follows:

1. Remuneration and Nomination Committee
2. Audit Committee
3. Intellectual Property Committee
4. Sustainability and Risk Committee

Each Committee has written terms of reference approved by the Board. These are kept under review and updated as needed. The membership and chair of Board Committees are determined by the Board.

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

The reports of the first of these two committees are in the following sections of the Annual Report and a summary of the roles and activities of the other Committees are provided below.

Intellectual Property Committee

Dr Yuri Zhuk, Technical Director, chairs the quarterly meeting of the IP Committee, with Robert Goddard and Philip Kirkham as the other members. Andrew Magson joined the Committee following his appointment to the Board in October 2022. 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 (HGF 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.

This Committee, which meets quarterly, has comprised Robert Goddard (Chair), Philip Kirkham, and Simon Hallam. Andrew Magson joined the Committee following his appointment to the Board in October 2022. 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 Committee 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.

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 can advise 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.

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.

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 Chair have made themselves available to present the results in person, or by means of virtual meetings. In addition, the Chair 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 Chair 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. Available on the Group's website is a video showing the new facility and the equipment installed within it. 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 the 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 Gold Merit Status (National Aerospace Defense Contractors Accreditation Program).

On behalf of the Board,
Andrew Magson

7 February 2023

Remuneration and Nomination Committee Report

Introduction, composition and duties

The Committee comprises Andrew Boyce and Tim Rice, with the latter as chair. It meets at least quarterly. In this financial year it met 10 times. Andrew Magson joined the Committee on his appointment to the Board following the financial year end. 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), Chair, 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 Chair 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 oversee changes in Board composition;

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

viii oversee the appointment of senior members of staff, including Directors.

Remuneration policy

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 will they have an annual salary increase as a result of the review in January 2023.

Remuneration components

Normally, 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; principally comprising 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 Remuneration Committee, having sought the advice of both the Group's Chair 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;

c. the improvement in gross profit; and

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

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

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

Non-executive directors' remuneration is reviewed by all members of the Board, apart from the non-executive director under review. There has been no change this year.

During his term in office, Robert Goddard was 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.

The main activities and decisions taken by the Committee during the year were as follows:

a. Nomination

The Committee oversaw the process to identify and recruit a new non-executive chair of the Board to succeed Robert Goddard. This process was led by Tim Rice as senior independent director and chair of the Committee. An external search firm was engaged to identify potentially suitable candidates and a detailed role specification was prepared. The specification included the desirability of improving gender and diversity balance on the Board, should a suitable candidate able to meet the key role specification criteria be identified and be interested in the position. From a long list prepared by the external firm, Tim Rice and Phil Kirkham (CEO), in consultation with Robert Goddard (Chair) agreed a short list of candidates who were then interviewed by these three individuals and given a tour of the Bicester site. A short list of two preferred candidates was then agreed. These candidates were interviewed again, including by all remaining members of the Board. Following further discussion between the Committee and Board members, Andrew Magson was identified as the preferred candidate and the Committee recommended to the Board that he be offered the role and be appointed.

The Nomination Committee's other principal activity during the year was to review Board and senior management succession matters, including the intention to seek to address gender balance and other Board diversity considerations as opportunities arise. In view of the current size and financial position of the Group, the Committee and Board, having taken advice, do not consider it appropriate to add to the number of Board members to address such diversity issues at this time.

b. Directors' remuneration during the year ended 30 September 2022

The main activities and decisions of the Remuneration Committee during the year, financial and to date, were:

- to set variable pay incentives for the Executive Directors for financial year 2022 and to consider the issue of any further share option incentives. It was decided not to issue further share options during the year.
- to agree any variable pay awards to be made in respect of actual performance for the 2022 financial year. On the basis that the relevant performance conditions were not met, no awards were made.
- to consider pay rises for the Executive Directors effective from 1 January 2023. It was agreed that in view of the Group's current financial performance and position, no increase would be made at this time, but that the position would be reviewed again effective 1 July 2023.
- to consider variable remuneration incentives for the Executive Directors for the financial year ending 30 September 2023. An executive incentive scheme has been implemented for the current financial year which will pay a maximum bonus of 25% of base salary for the executive directors based on the achievement of pre-determined financial objectives for the year.
- Details of the remuneration of all Board members for the year ended 30 September 2022 are set out in the notes to the financial statements.

Tim Rice
Chair of Remuneration and Nomination Committee

7 February 2023

Audit Committee Report

Overview and composition

In the reporting year, the Audit Committee comprised Robert Goddard (Committee Chair) and Tim Rice. Andrew Magson, the incoming Chair of the Board, joined the Committee and succeeded Robert Goddard as Committee Chair on his appointment to the Board in October 2022. Usually, the Finance Director, CEO and External Audit Partner will attend Committee meetings by invitation.

Whilst no non executive member of the Board held an accounting qualification during the 2022 financial year, Mr Goddard and Mr Rice were both deemed competent by virtue of their MBAs and professional experience.

The Audit Committee is now chaired by Andrew Magson who is a Chartered Accountant and has recent, relevant financial experience. Andrew Magson chaired the Committee meeting held to review this Report and Accounts document and to recommend its approval by the Board.

The Board is aware that the Chair of the Board should not normally also Chair the Audit Committee. However, given the current size, complexity and financial position of the Group and, having taken advice, the Board concluded that it is appropriate in these circumstances for the same individual to hold both roles. Tim Rice's position on the Committee, as Senior Independent Director, is therefore important.

Normally, the Audit Committee meets with the Group's external auditor at appropriate times during the reporting and audit cycle, and in addition as required. The Committee met once during the financial year and again after the financial year end to review the 2022 Annual Report and Financial Statements.

Duties

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.

External audit

The Group's external auditor is James Cowper Kreston.

The effectiveness and independence of the external audit and auditor is reviewed annually by reference to the auditor's attendance at Committee meetings, their audit plan, audit fieldwork, post-audit management letter and the judgment of the Committee having discussed the matter with the finance director.

In accordance with the regulations for public company audits, the James Cowper Kreston engagement partner who was responsible for the Hardide plc audit for the previous five financial years was changed by rotation ahead of the audit for financial year 2022.

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 audit 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.

Taking all of the above into consideration, the Committee concluded the auditors were both effective and independent during the year.

Key risk areas, and audit and accounting matters considered by the Committee

Generally, there is a close relationship between Hardide's income statement and its cash flows, with few significant judgmental items or longer-term unsettled items remaining on the balance sheet. The main accounting and audit risks identified during the year, including as also described in the auditor's report, were:

- funding and going concern risk assessments;
- revenue recognition (principally year end cut-off);
- grant income recognition; and
- share based payments.

No significant adjustments or matters of concern were identified by the external audit.

Internal control and consideration of the need for internal audit

The finance function for the Group and both of the Group's operating operations is managed by the Group Finance Director in Bicester with all management and statutory accounting, transaction processing, payments and group payroll controlled and managed from there.

Reliance with regard to internal control effectiveness is placed on the close involvement of the Executive Directors in the day to day management and control of the business, with the Audit Committee retaining oversight of financial information provided to the Board and the Group's accounting and internal control policies and procedures. Recommendations for amendments or improvements are made as needed.

During the year there were no significant matters raised by the external auditors, nor any significant matters of concern identified with regard to internal control elsewhere that required action by the Committee.

Therefore, it is judged that the current size, financial position, complexity and risk profile of the Group does not justify the cost of an internal audit function. This will be kept under annual review.

Andrew Magson
Chair

7 February 2023

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.

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, reducing emissions further from this starting point will be challenging.

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 amounts of CO2 emissions.

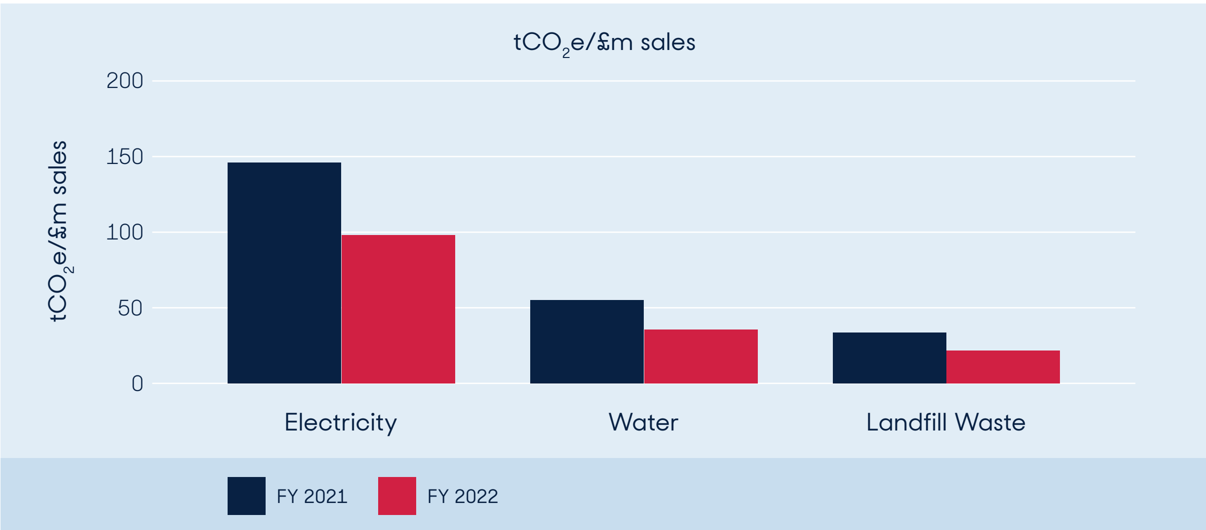
Hardide coatings benefit customers and the environment

Hardide's products greatly lower life cycle costs of customers due to increased operating life of components by reduced wear and enhanced corrosion resistance. Some customer and test reports show over a hundredfold increase in useful operating life. Our coatings 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 and cost 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.

Summary of key metrics

We reduced our emissions in FY22 compared with FY21



Electricity usage

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 of Origin) source. The only use of natural gas is at our US facility in Martinsville where it is used for workspace heating.

	FY21	FY22	Reduction %
Total electricity used (kWh)	1,403,769	1,307,454	6.9%
kWh/£m sales	389,935	261,490	32.9%

CO_2 Emissions

	FY21	FY22	Reduction %
Total CO_2e emissions (t)	547.8	516.9	5.6%
tCO_2e/£m sales	152.2	103.4	32.1%

Water usage

	FY21	FY22	Reduction %
Total water used (m^3)	198.4	181.7	8.4%
Usage (m^3/£m sales)	55.1	36.3	34.1%

Waste

Most customer parts for coating arrive in packaging which is reused to return the parts back 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

	FY21	FY22	Reduction %
Total waste to Landfill (t)	27.3	27.3	0
t/£m sales	7.6	5.5	27.6%

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	FY22
Total lost time incidents	2	1
Incident rate	2.37	1.13

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

Local Community

Hardide is a socially-responsible company and we monitor our effect on local communities and society in general.

Our new facility is located at an industrial estate away from any domestic housing, eliminating the potential for any noise to effect of the local community.

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

Gender Diversity

	Males	Females	Total	Male %	Female %
Directors	6	0	6	100	0
Staff	41	4	45	91.2	8.8
Total group	47	4	51	92.2	7.8

Employee turnover rate	10.8%
Pay equity - CEO pay as multiple of median UK earnings	6.13

Governance

Key Metrics

Are the CEO's and Chair'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

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 2022 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 Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

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 2022 and of the Group's loss and cash flows for the year then ended;
- the financial statements of the Group have been properly prepared in accordance with UK adopted International Accounting Standards;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom accounting standards; and
- the parent company 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 – appropriate audit procedures for the purpose of the audit of 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 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. These options vest over a two to 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 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.

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 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 £75,000 (2021: £54,000). Performance materiality of £53,000 (2021: £38,000) was applied for testing and it was agreed with the Board that we would report on all audit differences in excess of £4,000 (2021: £2,700), 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 also 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 for the parent company financial statements. Having regard to both the size of the company and its performance, 5% of the loss before tax, after adjusting for foreign exchange gains and losses on intercompany balances and intercompany charges, was viewed as an appropriate level to set materiality. Based on our professional judgement materiality was set at £75,000 (2021: £54,000), capped at Group materiality. Performance materiality of £53,000 (2021: £38,000) was applied for testing and it was agreed with the Board that we would report on all audit differences in excess of £4,000 (2021: £2,700), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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

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
- 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 22-23, 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:

- Enquiry of management and those charged with governance around actual and potential litigation and claims;
- Reviewing minutes of meetings of those charged with governance;
- Reviewing reports and submissions with regulatory bodies including enquiries of those in compliance functions;
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations;
- Reviewing the robustness of, and compliance with, the Group's internal control procedures in the identification of irregularities, including fraud;
- 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 reviewing accounting estimates for bias.

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

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Alan Poole BA (Hons) FCA (Senior Statutory Auditor)
For and on behalf of
James Cowper Kreston Audit
Chartered Accountants and Statutory Auditor
2 Chawley Park
Cumnor Hill
Oxford
OX2 9GG
United Kingdom

7 February 2023

Consolidated Statement of Comprehensive Income

For the year ended 30 September 2022

	Note	**2022** **£ '000**	2021 £ '000
Revenue	2	**5,015**	3,597
Cost of sales		**(3,135)**	(2,286)
Gross profit		**1,880**	1,311
Administrative expenses		**(2,830)**	(2,795)
Depreciation and amortisation of owned assets		**(890)**	(854)
Depreciation of right of use assets		**(318)**	(280)
Share based payments	18	**9**	(202)
Provisions	15	**-**	(6)
Operating (loss)	3	**(2,149)**	(2,826)
Finance income	4	**4**	3
Finance costs	5	**(49)**	(17)
Finance costs on right of use assets	5	**(80)**	(87)
(Loss) on ordinary activities before taxation		**(2,274)**	(2,927)
Taxation	7	**86**	125
(Loss) on ordinary activities after taxation		**(2,188)**	(2,802)
(Loss) per share: Basic	8	**(3.9)p**	(5.1)p
(Loss) per share: Diluted	8	**(3.9)p**	(5.1)p
Other Comprehensive Income			
Items that may be reclassified to profit or loss: Exchange differences on translation of foreign operations		**304**	(87)
Total comprehensive loss for the year attributable to owners of the parent company		**(1,884)**	(2,889)

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 2022

	Note	**2022 £ '000**	2021 £ '000
Assets			
Non-current assets			
Goodwill	9	**69**	69
Intangible assets	10	**19**	36
Property, plant & equipment	11	**5,402**	5,700
Right of use assets	12	**1,660**	1,881
Total non-current assets		**7,150**	7,686
Current assets			
Inventories	13	**487**	504
Trade and other receivables	13	**955**	583
Other current financial assets	13	**450**	442
Cash and cash equivalents	13	**693**	1,543
Total current assets		**2,585**	3,072
Total assets		**9,735**	10,758
Liabilities			
Current liabilities			
Trade and other payables	14	**1,077**	702
Financial liabilities	14	**257**	208
Right of use lease liability	14	**201**	201
Provisions			
Provision for onerous lease and dilapidations	15	**-**	34
Total current liabilities		**1,535**	1,145
Net current assets		**1,050**	1,927
Non-current liabilities			
Financial liabilities	16	**878**	738
Right of use lease liability	16	**1,742**	1,911
Provisions			
Provision for dilapidations	15	**50**	50
Total non-current liabilities		**2,670**	2,699
Total liabilities		**4,205**	3,844
Net assets		**5,530**	6,914
Equity attributable to equity holders of the parent			
Share capital	17	**4,063**	3,942
Share premium	17	**19,242**	18,854
Retained earnings		**(18,200)**	(16,012)
Share-based payments reserve		**553**	562
Translation reserve		**(128)**	(432)
Total equity		**5,530**	6,914

The financial statements were approved and authorised for issue by the Board on 7 February 2023.

Philip Kirkham
CEO

Simon Hallam
Finance Director

Consolidated Statement of Cash Flows

For the year ended 30 September 2022

	2022 £ '000	2021 £ '000
Cash flows from operating activities		
Operating (loss)	**(2,149)**	(2,826)
Amortisation of intangibles	**18**	18
Depreciation on owned assets	**872**	836
Depreciation on right of use assets	**318**	280
Share option charge	**(9)**	202
Decrease in inventories	**17**	61
(Increase) in receivables	**(372)**	(115)
Increase / (decrease) in payables	**372**	(204)
(Decrease) in provisions	**(34)**	(183)
Cash used in operations	**(967)**	(1,931)
Finance income	**4**	3
Finance costs	**(49)**	(17)
Right of use asset interest	**(80)**	(87)
Tax received	**78**	96
Net cash used in operating activities	**(1,014)**	(1,936)
Cash flows from investing activities		
Proceeds from sales of property, plant and equipment	**7**	18
Purchase of intangibles	**(1)**	(4)
Purchase of property, plant and equipment	**(298)**	(313)
Net cash used in investing activities	**(292)**	(299)
Cash flows from financing activities		
Net proceeds from issue of ordinary share capital	**509**	764
New loans raised	**325**	553
Loans repaid	**(261)**	(101)
Repayment of leases	**(251)**	(273)
Net cash generated from financing activities	**322**	943
Effect of exchange rate fluctuations	**134**	120
Net (decrease) in cash and cash equivalents	**(850)**	(1,172)
Cash and cash equivalents at the beginning of the year	**1,543**	2,715
Cash and cash equivalents at the end of the year	**693**	1,543

Consolidated Statement of Changes in Equity

For the year ended 30 September 2022

	Share Capital £ '000	Share Premium £ '000	Share-based Payments £ '000	Translation Reserve £ '000	Retained Earnings £ '000	Total Equity £ '000
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
At 1 October 2021	**3,942**	**18,854**	**562**	**(432)**	**(16,012)**	**6,914**
Issue of new shares	**121**	**388**	**-**	**-**	**-**	**509**
Share options	**-**	**-**	**(9)**	**-**	**-**	**(9)**
Exchange translation	**-**	**-**	**-**	**304**	**-**	**304**
Loss for the year	**-**	**-**	**-**	**-**	**(2,188)**	**(2,188)**
At 30 September 2022	**4,063**	**19,242**	**553**	**(128)**	**(18,200)**	**5,530**

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) and IFRS Interpretations Committee (IFRS IC) 2006 issued and effective at the time of preparing these annual financial statements, in conformity with the requirement of the Companies Act.

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 2023

- IAS 1 – Presentation of Financial Statements – Disclosure of accounting policies
- IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of accounting estimates
- IAS 12 – Income Taxes – Deferred tax relates to assets and liabilities arising from a single transaction

Effective date* 1st January 2024

- IAS 1 – Presentation of Financial Statements – Classification of liabilities as current or non-current
- IAS 1 - Presentation of Financial Statements – Non-current liabilities with covenants
- IFRS 16 – Leases – Lease liability in a sale and leaseback

* 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 the financial statements after assessing the principal risks and having considered the impact of various downside scenarios compared to the Group's base case financial plans, the pace of sales growth and the level of profit margins for a period of at least 12 months from the date of signing the Annual Report. Whilst the macro-economic position is highly volatile, making scenario planning difficult, the directors have considered various impacts on sales, profitability and cash flows and believe that the Group will have adequate resources to continue in operational existence for the foreseeable future.

The directors considered how the current economic climate, including external forecasts of lower economic growth or recession in 2023, higher interest rates and inflation, may affect the performance of the business; from the supply chain to the ability of our customers to operate. A major disruption caused by such factors would most likely result in reduced sales volumes and require significant action in relation to operational cost reductions, working capital management and control over capital investment. We considered the sensitivity of sales volume reductions over a substantial part of our 2023 financial year and also into 2024. The revenue and operational leverage impact of such a volume loss would have a significant negative impact on the performance of the Group, albeit cash would be released from lower working capital requirements and lower capital spend. The scenario modelling indicates that the Group would have sufficient cash reserves over the foreseeable future. In addition, the Group has a successful track record of raising additional equity finance, if required, to support solvency and growth. The directors therefore 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.

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 55% 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 dilapidations on its site in 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 the entity (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 2022

	UK operation £ '000		US operation £ '000		Corporate £ '000		Total £ '000	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
External revenue	**3,076**	1,923	**1,939**	1,674	**-**	-	**5,015**	3,597
Interest revenue	**-**	1	**1**	-	**3**	2	**4**	3
Interest expense	**105**	96	**16**	8	**8**	-	**129**	104
Depreciation	**835**	818	**373**	316	**-**	-	**1,208**	1,134
Income tax	**-**	-	**-**	-	**86**	125	**86**	125
Reportable segment profit / (loss)	**(1,650)**	(1,939)	**186**	79	**(724)**	(942)	**(2,188)**	(2,802)
Segment assets	**6,855**	7,083	**2,323**	2,891	**557**	784	**9,735**	10,758
Expenditure for non-current assets	**221**	255	**81**	62	**-**	-	**302**	317
Segment liabilities	**2,962**	3,061	**893**	439	**350**	344	**4,205**	3,844

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					
2022	**1,314**	**666**	**3,007**	**28**	**5,015**
2021	1,257	176	2,149	15	3,597

The UK operation sells to the UK, Europe and some North American customers, while the US operation only sells to North America. During 2022, of the £3,007,000 sales to North American customers, £1,068,000 originated from the UK operation. All revenue is recognised at a point in time and no revenue is recognised over time.

Four external customers (2021 – five) contributed more than 10% of the Group's continuing external sales for the year ended 30 September 2022. The external sales for these customers were £1,591,000, £725,000, £707,000 and £505,000 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):		2022 £ '000	2021 £ '000
Auditor's remuneration			
fees payable to the Company's current auditor for:			
- the audit of the Group's accounts		**37**	35
- tax compliance		**5**	7
Cost of inventory recognised as an expense		**1,561**	1,006
Research and development		**483**	501
Income from grants		**(201)**	(205)
Share option (credit) / expense		**(9)**	202
Depreciation and amortisation	- owned assets	**890**	854
	- right of use assets	**318**	280
Exchange differences		**(31)**	23

Income from grants includes $232,000 (£177,000) received from the Internal Revenue Service as an Employee Retention Tax Credit established by the Coronavirus Aid, Relief and Economic Security (CARES) Act in the US.

4. Finance Income

	2022 £ '000	2021 £ '000
Interest on bank deposits	**4**	3

5. Finance Costs

	2022 £ '000	2021 £ '000
Interest on loans	**49**	17
Interest on right of use assets	**80**	87
	129	104

6. Employees

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

	2022	2021
Technical	**13**	15
Production	**20**	19
Sales and marketing	**6**	6
Management and administration	**5**	6
	44	46

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

	2022 £ '000	2021 £ '000
Wages and salaries	**2,519**	2,323
Social security costs	**271**	241
Employer pension contributions	**45**	44
Share option expense	**(9)**	202
	2,826	2,810

Of the total share option credit of £9,000 in the year, £11,000 credit 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% (2021: 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:

		2022 £ '000	2021 £ '000
Philip Kirkham (Chief Executive)	Salary	**199**	193
Dr Yuri Zhuk (Technical Director)	Salary	**122**	118
	Pension	**8**	8
Simon Hallam (Finance Director)	Salary	**103**	100
	Other benefits	**8**	8
	Pension	**1**	1
Robert Goddard (Non-Executive Chair)	Fees	**50**	50
Andrew Boyce (Non-Executive Director)	Fees	**25**	25
Tim Rice (Non-Executive Director)	Fees	**25**	25
Total directors' remuneration		**541**	528

7. Taxation

(a) Tax on ordinary activities:	**2022** **£ '000**	2021 £ '000
UK Corporation Tax Charge	**(73)**	(87)
Adjustment in respect of prior years	**(13)**	(38)
	(86)	(125)
Deferred Tax		
Origination and reversal of timing differences	**-**	-
Adjustments in respect of prior periods	**-**	-
Effect of rate change on opening balance	**-**	-
Tax	**(86)**	(125)

(b) Factors affecting current tax charge:
The tax assessed on the profit on ordinary activities for the year is lower than (2021: lower than) the standard rate of corporation tax in the UK of 19% (2021: 19%)

	2022 **£ '000**	2021 £ '000
Loss on ordinary activities before taxation	**(2,274)**	(2,927)
Loss on ordinary activities by rate of tax	**(432)**	(556)
Effect of:		
Expenses not deductible for tax purposes	**126**	42
Deferred tax not recognised	**175**	836
Adjustment in respect of prior periods	**(13)**	(38)
Adjustment to opening / closing deferred tax	**-**	(361)
R&D enhanced expenditure	**(75)**	(77)
R&D surrendered	**133**	23
Other differences	**-**	6
Total current tax (note 7a)	**(86)**	(125)

The standard rate of corporation tax in the UK is currently 19% (2021: 19%). The Group has unutilised trading tax losses in the UK of approximately £11.6m (2021: £11.2m) available to carry forward against future trading profits. The general principle in IAS 12 is that a deferred tax asset is recognised for unused tax losses to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised. No deferred tax asset has been recognised in respect of these amounts due to the unpredictability of future taxable profits.

Factors that may affect future tax charges
The main rate of corporation tax will rise from 19% to 25% from 1 April 2023. As the Group has not recognised deferred tax, the impact will not be material to the financial statements.

8. Earnings per Ordinary Share

	2022 **£ '000**	2021 £ '000
(Loss) on ordinary activities after tax	**(2,188)**	(2,802)

Basic earnings per ordinary share:

Weighted average number of ordinary shares in issue	**56,058,053**	54,980,286
Earnings per share	**(3.9)p**	(5.1)p

As net losses were recorded in 2022 and 2021, 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 2021 and 30 September 2022	69
Net book value at 1 October 2021 and 30 September 2022	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 £69,095.

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 2022 and 2021 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 applied a discount rate of 12%.

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

	2022 **£ '000**	2021 £ '000
Cost at 1 October	**78**	76
Additions	**1**	4
Disposals	**(2)**	(2)
Cost at 30 September	**77**	78
Amortisation b/fwd	**42**	26
Disposals	**(2)**	(2)
Amortisation in the year	**18**	18
Amortisation c/fwd	**58**	42
Net book value at 1 October	**36**	50
Net book value at 30 September	**19**	36

11. Property, Plant and Equipment

	Leasehold buildings £ '000	Plant, vehicles and fixtures £ '000	Computer equipment £ '000	Total £ '000
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**
Cost at 1 October 2021	1,782	7,815	164	9,761
Additions	23	274	4	301
Disposals	(264)	(341)	(25)	(630)
Exchange differences	50	600	7	657
Cost at 30 September 2022	**1,591**	**8,348**	**150**	**10,089**
Depreciation at 1 October 2021	531	3,420	110	4,061
Provided in the year	146	701	25	872
Disposals	(263)	(340)	(25)	(628)
Exchange differences	32	345	5	382
Depreciation at 30 September 2022	**446**	**4,126**	**115**	**4,687**
Net book value at 1 October 2021	1,251	4,395	54	5,700
Net book value at 30 September 2022	**1,145**	**4,222**	**35**	**5,402**

12. Right of use assets

	Buildings £ '000	Equipment £ '000	Vehicles £ '000	Total £ '000
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**
Cost at 1 October 2021	2,344	71	41	2,456
Additions	68	-	-	68
Disposals	(255)	(13)	-	(268)
Adjustments	-	-	2	2
Exchange differences	60	-	-	60
Cost at 30 September 2022	**2,217**	**58**	**43**	**2,318**
Depreciation at 1 October 2021	521	42	12	575
Provided in the year	288	19	11	318
Disposals	(255)	(13)	-	(268)
Adjustments	4	-	-	4
Exchange differences	29	-	-	29
Depreciation at 30 September 2022	**587**	**48**	**23**	**658**
Net book value at 1 October 2021	1,823	29	29	1,881
Net book value at 30 September 2022	**1,630**	**10**	**20**	**1,660**

13. Current Assets

	2022 **£ '000**	2021 £ '000
Inventories		
Raw materials and consumables	**412**	288
Manufactured parts for resale	**52**	177
Work in progress	**23**	39
	487	504
Receivables		
Trade receivables	**942**	572
Other receivables	**13**	11
	955	583
Other current financial assets		
Prepayments	**217**	221
VAT receivable	**73**	68
R&D tax receivable	**160**	152
Accrued income	**-**	1
	450	442
Cash and cash equivalents		
Sterling	**468**	688
US Dollar	**225**	839
Euro	**-**	16
	693	1,543
Total current assets	**2,585**	3,072

There is no general provision for bad debts. During the year, no specific trade receivables were classified as a bad debt (2021: £1,000). Trade receivables are regularly reviewed for age and possible impairment. It is the directors' opinion that, as at the Statement of Financial Position date, no trade receivable required impairment. The ageing of trade receivables is as follows:

	2022 **£ '000**	2021 £ '000
Current	**526**	263
1 month	**200**	284
2 months	**108**	2
3 months	**22**	3
More than 3 months	**86**	20
Total trade receivables	**942**	572

A total of £416,000 (2021: £309,000) trade receivables are over 30 days old and therefore overdue. All of these debts were recovered in the post balance sheet period.

14. Current Liabilities

	2022 £ '000	2021 £ '000
Trade payables	**812**	460
Taxation and social security costs	**65**	62
Accruals	**200**	180
	1,077	702
Loans	**238**	192
Deferred income	**19**	16
Right of use lease liability	**201**	201
Total current liabilities	**1,535**	1,111

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%. The first loan repayment instalment commenced 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%. The first loan repayment instalment commenced in March 2022.

On 19 January 2022, the Group 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%. The first loan repayment instalment commenced in February 2022.

15. Provisions

	Grants £ '000	Onerous lease £ '000	Dilapidations £ '000	Total £ '000
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**
Provision at 1 October 2021	-	4	80	84
Provisions utilised	-	(4)	(98)	(102)
Provisions charged	-	-	68	68
Provision at 30 September 2022	**-**	**-**	**50**	**50**

	2022 £ '000	2021 £ '000
Maturity analysis:		
Within 1 year	**-**	34
1 to 2 years	**-**	-
2 to 3 years	**-**	-
3 to 4 years	**-**	-
4 to 5 years	**-**	-
5+ years	**50**	50
	50	84

16. Non-current other Financial Liabilities

	2022 £ '000	2021 £ '000
Loans	**780**	642
Deferred income	**98**	96
	878	738
Right of use lease liability	**1,742**	1,911
Loans		
Total loans	**1,018**	834
Maturity analysis:		
Within 1 year	**238**	192
1 to 2 years	**250**	187
2 to 3 years	**217**	197
3 to 4 years	**149**	161
4 to 5 years	**81**	76
5+ years	**83**	21
Deferred income		
Total deferred income	**117**	112
Maturity analysis:		
Within 1 year	**19**	16
1 to 2 years	**19**	16
2 to 3 years	**19**	16
3 to 4 years	**19**	16
4 to 5 years	**19**	16
5+ years	**22**	32
Right of use lease liabilities		
Total lease liabilities	**1,943**	2,112
Maturity analysis:		
Within 1 year	201	201
1 to 2 years	196	188
2 to 3 years	174	184
3 to 4 years	133	167
4 to 5 years	139	133
5+ years	1,100	1,239

17. Share Capital

	2021		2020	
	Number 000	**Value £ '000**	Number 000	Value £ '000
Allotted ordinary shares of 4p each	**58,902**	**2,356**	55,876	2,235
Allotted deferred shares of 0.9p each	**189,642**	**1,707**	189,642	1,707

During the year, the Company raised £555,000 before expenses (£509,000 net of commission, legal fees and expenses) by way of placing 3,026,314 ordinary 4p shares at a price of 19.0p per share. No employee share options were exercised during the year (2021: None).

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.
Share-based payments – this comprises the share-based payments reserve, debited or 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 2021	4,846,822	43.6p
Exercisable at 30 September 2021	940,850	37.7p
Granted during year	-	-
Exercised during year	-	-
Lapsed during year	501,300	32.4p
Outstanding at 30 September 2022	4,345,522	44.9p
Exercisable at 30 September 2022	439,550	43.7p

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

	Number	Weighted average exercise price
Philip Kirkham (Chief Executive)	1,483,200	46.5p
Yuri Zhuk (Technical Director)	689,516	46.3p
Simon Hallam (Finance Director)	600,000	30.0p

None of the directors exercised options during the year.

In addition, Robert Goddard, the Group's former Chair who was a director until 24 January 2023, holds 387,500 share options at a weighted average exercise price of 41.4p.

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.

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 2022 the weighted average remaining contractual life of all outstanding options was 6 years and 6 months (2021: 7 years and 3 months).

The credit to the income statement for share options during the year was £9,000 (2021: £202,000 charge).

19. Post Balance Sheet Events

On 21 December 2022, Hardide Coatings Inc completed a purchase, sale & leaseback of its facility in Martinsville, Virginia, and entered into a new 10 year lease agreement with the purchaser of the site. The consideration paid amounted to $617,000 and the gross sale proceeds realised were $1,200,000.

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 Ltd had capital commitments of £19,000 for the purchase of equipment (2021: £35,000). Hardide Coatings Inc had no capital commitments (2021: £4,000).

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 2022 the Group had trade receivables and other receivables of £955,000 (2021: £583,000) and cash deposits of £693,000 (2021: £1,543,000).

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 2022 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 gain of £31,000 (2021: £23,000 loss).

Interest rate risk

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

As at 30 September 2022, 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 2022

	Note	2022 £ '000	2021 as restated £ '000
Assets			
Non-current assets			
Investments	3	**1,269**	1,267
Amounts owed by group undertakings	4	**12,283**	11,632
Provision	4	**(12,283)**	(11,632)
Total non-current assets		**1,269**	1,267
Current assets			
Trade and other receivables	5	**214**	2,826
Cash and cash equivalents		**345**	582
Total current assets		**559**	3,408
Total assets		**1,828**	4,675
Liabilities			
Current liabilities			
Trade and other payables	6	**131**	94
Financial liabilities	6	**63**	47
Total current liabilities		**194**	141
Net current assets		**365**	3,267
Non-current liabilities			
Financial liabilities	7	**156**	203
Total non-current liabilities		**156**	203
Total liabilities		**350**	344
Net assets		**1,478**	4,331
Equity			
Share capital	8	**4,063**	3,942
Share premium		**19,242**	18,854
Retained earnings		**(22,380)**	(19,027)
Share-based payments reserve		**553**	562
Total equity		**1,478**	4,331

The comparatives have been restated to reflect the impact of inter-company recharges. The result is to increase the loss of the parent company by £57,000 and reduce the inter-company debtor by the same amount. There is no impact on reported cash balances, nor on the Group results.

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 £3,353,000 (2021: £1,218,000 as restated) after accounting for an increase in the provision against the intercompany loan and inter-company trading debtor of £651,000 and £4,147,000 respectively, and an exchange rate gain on intercompany loan of £2,169,000.

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

The financial statements were approved and authorised for issue by the Board on 7 February 2023.

Philip Kirkham
CEO

Simon Hallam
Finance Director

Parent Company Statement of Changes in Equity

For the year ended 30 September 2022

	Share Capital £ '000	Share Premium £ '000	Share-based Payments £ '000	Retained Earnings as restated £ '000	Total Equity as restated £ '000
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, as restated	-	-	-	(1,218)	(1,218)
At 30 September 2021	3,942	18,854	562	(19,027)	4,331
At 1 October 2021	**3,942**	**18,854**	**562**	**(19,027)**	**4,331**
Issue of new shares	**121**	**388**	**-**	**-**	**509**
Share options	**-**	**-**	**(9)**	**-**	**(9)**
Loss for the year	**-**	**-**	**-**	**(3,353)**	**(3,353)**
At 30 September 2022	**4,063**	**19,242**	**553**	**(22,380)**	**1,478**

Notes to the Parent Company Accounts

1. Principal Accounting Policies

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies.

The following principal accounting policies have been applied:

Financial Reporting Standard 101 - reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member

This information is included in the consolidated financial statements of Hardide Plc as at 30 September 2022 on pages 42 to 63.

2. Employees

The average number of employees, including executive directors but excluding non-executive directors, during the year comprised:

	2022 Number	2021 Number
Management and admin	**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:

	2022 £ '000	2021 £ '000
Wages and salaries	**716**	701
Social security costs	**86**	83
Share option (credit) / expense	**(11)**	170
Employer pension costs	**15**	15
	806	969

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

3. Investments

	2022 £ '000	2021 £ '000
Investments in subsidiaries	**1,269**	1,267

At 30 September 2022 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 £12,283,000 (2021: £11,632,000) has been classified as a non-current asset. A provision has been made for the full amount owed because of doubts about its recoverability. The increase in debt provision during the year of £651,000 (2021: £236,000 reduction) has been debited to the profit and loss account in the year.

5. Trade and other Receivables

	2022 £ '000	2021 as restated £ '000
Prepayments and accrued income	**37**	41
VAT receivable	**17**	9
R&D tax receivable	**160**	152
Amounts owed by group undertakings	**4,147**	2,624
Provision against amounts owed by group undertakings	**(4,147)**	-
	214	2,826

The amounts owed by group undertakings are unsecured and interest free, and are repayable on demand. A provision has been made for the full amount owed because of doubts about its recoverability. The increase in debt provision during the year of £4,147,000 (2021: Nil) has been debited to the profit and loss account in the parent company in the year.

6. Current liabilities

	2022 £ '000	2021 £ '000
Trade payables	**64**	29
Social security and other taxes	**28**	26
Accruals and deferred income	**39**	39
	131	94
Loans	**63**	47
Total current liabilities	**194**	141

7. Non-current other financial liabilities

	2022 £ '000	2021 £ '000
Loans	**156**	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%. The first loan repayment instalment commenced in March 2022.

8. Share capital

	2022		2021	
	Number 000	**Value £ '000**	Number 000	Value £ '000
Allotted ordinary shares of 4p each	**58,902**	**2,356**	55,876	2,235
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.

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T J Rice

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