Hardide Plc

Financial Statements

For the year ended 30 September 2009

Registered Number 5344714

Financial Highlights

- Group turnover decreased 43% to £1 21 million (FY 2008 £2 12 million)
- Loss before tax and exceptional items decreased 16% to £1 46 million (FY 2008 loss £1 74 million)
- Impairment of fixed assets of Houston facility of £0 36 million treated as an exceptional item
- Decreased loss per share of 0 6 p (FY 2008 loss 1 1 p)
- Successful raising of £1 57 million (gross) new funds, £1 million in loans converted into new ordinary shares
- Overheads reduced by £600,000 (29%) compared with 2008

Operational Highlights

- Successful transfer of US production to UK with no customer losses following hibernation of Houston facility
- Management team strengthened with the appointment of Nick King as Business Development Manager
- Successful development of new coating for titanium
- Hardide secures approval and orders from FMC Technologies (NYSE FTI)
- Hardide secures approval as standard product line and orders from Flowserve Corporation (NYSE FLS)
- Hardide-A coating developed as a substitute for hard chrome plating

Post-Period Events

- Positive indications from key customers of a recovery of demand in 2010
- Further strategic markets and applications review to complete in early 2010

CHAIRMAN'S STATEMENT

Hardide plc's results for the year to 30 September 2009 reflect the economic downturn that has affected all the sectors in which Hardide's key customers are operating The Group's position is in common with that of many small manufacturers and has been further affected by aggressive de-stocking by major customers This caused a sharp fall-off in orders, beginning in Q2 2009 as announced

The Group is reporting FY 2009 sales revenue of £1 21 million, a decrease of 43% compared with the same period last year (FY 2008 £2 12 million) The Group PBT for the year narrowed to a loss before tax and exceptional items of £1 46 million, a 16% reduction from the pre-tax loss of £1 74 million in 2008

The reduction in demand from our customers, who service the oil and gas, construction and automotive markets, was sudden and sharp and has been followed by a prolonged period of very limited visibility of future demand Swift and significant management action was necessary to protect the Group's business and restructure it so as to withstand better the effects of the manufacturing downturn In March 2009, the Group announced the hibernation of the Houston manufacturing facility, a redundancy programme in the UK and a plan to significantly reduce costs and conserve cash These were hard decisions but necessary to create longer term stability and preserve a solid foundation from which the Group can re-build as markets improve In total, these actions delivered an annualised cost saving of £650,000, which resulted in an EBITDA loss for the year of £1 12 million, broadly similar to the FY 2008 EBITDA loss of £1 09 million The hibernation of the Houston facility resulted in an exceptional impairment charge of £364,000

In May 2009, the board announced that it was undertaking a review of its strategic options to further ensure the future of the Group This culminated in fundraising that was completed in July 2009 and raised £1,566,200 of new funds with a further £1 million of loans being converted into new ordinary shares at the placing price The new money covered working capital needs, the further development of Hardide's patented diamond coating technology and the continued development of the US market The board acknowledges and thanks the major shareholders for their continued faith and support, and their further investment in the Group

In light of the new market conditions, in late Q4 2009, the management team, supported by the board, began a further strategic review to revisit previous analysis and assumptions of key markets and applications with the highest potential for the Hardide technology This is an in-depth process and due for completion in early 2010 Initial findings support the current strategic plan but the review is expected to lead to a plan to deliver short-term sales revenue and a diversified and robust business

While the Group's growth has been badly affected by the wider economic climate, the board remains confident in the technology, its potential for new applications with existing customers and in new markets, and in the recovery of demand Post-period, the Group has received positive indications from key customers that demand will rise over the course of the next calendar year

I would like to thank all staff, shareholders and members of the board for their support and continuing confidence in the Group during this difficult year Thanks are also due to David Mott, who retired from the board in March 2009, for his sound advice and guidance as a Non-Executive Director since the earliest days of Hardide

Robert Goddard
Chairman
14 December 2009

CHIEF EXECUTIVE OFFICER'S REVIEW

The fierce slowdown of global trade and economic activity at the end of 2008 triggered huge uncertainties in our key customers' primary markets i.e. the oil and gas, construction and automotive industries. This quickly filtered through the supply chain and in Q2 2009, Hardide experienced a rapid deterioration in demand as customers radically reined in expenditure.

In March 2009, it was necessary to implement a Group-wide cost reduction plan to re-align the business to the new market conditions. This included the hibernation of the Houston manufacturing facility and the temporary move of all US production to the UK, a UK redundancy programme and a re-evaluation of all discretionary expenditure. It was extremely disappointing to have to take this action at a time when the Hardide technology continues to gain recognition as an 'enabling' technology by blue chip customers operating in multi-billion dollar markets. Nevertheless, the sales cycle remains frustratingly slow due to the unique nature of the technology and the need for stringent and prolonged testing in the majority of its current applications. By the end of March 2009, all US sampling and production had been moved seamlessly to the UK with no loss of customers.

UK: Hardide Coatings Limited

The UK operating company, Hardide Coatings Limited, delivered FY 2009 revenue of £1.09 million, down 45% from £1.97 million in 2008. The UK business was particularly hard hit by depressed activity within the oil and gas sector. Lower oil and gas prices caused the operating companies to reduce expenditure dramatically, cancel projects or request price concessions. This squeeze saw discretionary drilling being put on hold as the oil price in mid-2009 sat at around half the level of July 2008, when it had peaked at US$147. Together with the customer de-stocking issue, this market softening was the major contributory factor to the 2009 revenue drop. No customers reduced orders due to dissatisfaction with the Hardide technology or service.

The UK business reported a pre-tax loss of £324,000, compared with a pre-tax loss of £133,000 in the same period last year. While lower revenue was not completely off-set by lower costs, overheads in the UK were reduced by 38%, mainly due to a reduced headcount and a spending moratorium.

In February 2009, the management team was strengthened by the appointment of Nick King as Business Development Manager for UK and Europe. He joined from Praxair Surface Technologies Ltd., bringing more than 30 years of experience and contacts within the surface treatment market. He has made a strong impact on the management team, helping to shape the future direction of sales and market development.

Throughout the year, the operations and engineering teams have concentrated on improving delivery performance and plant efficiency, using any spare capacity to improve general housekeeping throughout the shop floor and customer-facing areas. This has resulted in increased yields and loading capacities, improved plant efficiency via *Total Productive Management*, more robust coating practices and standardised methods, and a more streamlined enquiry process with full traceability. 'On-time' delivery has improved by 9% while late orders have reduced by 37% and the average time period for a late order has been reduced by 50%. Improved design of furnace tooling for one high volume application has led to an increase in yield of 150%. Overall the plant has recorded a 17% reduction in reworks due to improved process and plant efficiencies.

The Airbus three-year test programme that the UK company entered into and reported last year is advancing, with samples now undergoing extensive corrosion, wear and metallographic testing. Interim results are encouraging.

US: Hardide Coatings, Inc

The Houston facility reported sales revenue of $182,000 in the six months to 31 March 2009 when the plant was hibernated, and a FY 2009 loss of $1 80 million after accounting for an impairment charge The US business had continued to experience an extended sales cycle which, when combined with the effects of the depressed oilfield services market, meant that it was not possible to sustain manufacture in the region without putting the entire Group at risk The sales, operations and engineering teams worked closely to ensure a seamless transition of customers, samples and production parts to the UK This worked well and all customers were retained Lead and sample times have been maintained, and in some cases improved, despite shipping The plant remains in place in Houston and will be re-opened when the UK reaches capacity and/or when US sales are sufficient to support the re-start of operations Meanwhile, the US continues to play an important role, both in current sales and future business growth Two significant new customers, FMC Technologies and Flowserve Corporation, were gained in H2 2009 in our key sectors of oil and gas, and valves respectively Furthermore, the Group is in extensive test programmes with two blue chip strategic customers in the region, both customers forming cornerstones of our diversification strategy

Markets

Customer and sector diversification remains a priority for the Group The global economic downturn has slowed our progress in achieving this strategic goal but we are working to develop new revenue streams from existing customers and enter new markets with proven applications Developing these strategic relationships with key global customers will position us to meet their needs as economic conditions improve and embed our technology across a wider portfolio of applications

Our core commercial markets of oil and gas, valves and pumps have all been affected by the global economy but remain large and profitable We are confident that they will remain central to the Group's growth The management team is undertaking a strategic review to identify and qualify additional markets and applications which have the highest potential to deliver short term financial returns and build a pipeline for a diversified business This is due for completion in early 2010

Health, Safety and Environment

Hardide plc is committed to the highest standards of health, safety and environmental policy and practice The Group recorded no lost time accidents during the reporting period and achieved a record 350 days without an entry into the accident book

The Group has continued to develop and improve its quality systems and methods throughout the year A stage 2 AS9100 audit is planned for the new calendar year If successful, this will replace the current ISO 9001 standard and support the continued progress of Hardide in the aerospace market

Technology, Research & Development

The Applications Development Committee (ADC) led by Dr Yuri Zhuk, Technical Director, has continued to make good progress throughout the year The committee was formed last year to evaluate, prioritise, manage and monitor the development of new applications in both the UK and US The ADC works on a rotation of no more than twelve key applications that are scored for technical and commercial potential before being selected for development and testing Last year, the development of variant coatings for diamonds and titanium were identified as key projects for R&D resources

In March 2009, the Group was pleased to announce that it had successfully developed a process to enable the Hardide coating of titanium Tests are now underway in the UK and US with blue chip customer partners This is a significant breakthrough for the coating of a high-performance metal commonly used in the aerospace, defence, motorsport and general industrial applications

Testing is continuing on the new variant coating for diamond with three customer partners in the UK and US This application is for a new and patented tungsten carbide Hardide coating that offers an unprecedented combination of adhesive and protective properties Improved tool performance and durability is expected to offer impressive cost savings to customers The results are promising although scale-up and commercialisation will require capital investment

During the year, a new coating, Hardide-A was developed as a substitute for hard chrome plating which is under threat from EU REACH and other similar environmental regulations worldwide Hard chrome plating is widely used in the aerospace sector and many blue chip companies including the major aircraft manufacturers have launched programs to identify and develop new coatings to replace hard chrome Hardide-A matches the key characteristics of hard chrome plating including hardness and thickness, and outperforms the material in some key protective properties Hardide-A is currently under test and evaluation with two leading European high-tech companies

Outlook

Our outlook at the start of the new financial year is cautious but stable In the short term, a key determining factor in the timing of our return to revenue growth is the timing of the economic recovery When this happens, in particular when oil and gas exploration and production expenditure returns, as it is beginning to, we are well placed to respond rapidly and effectively We have retained the critical infrastructure, people, skills and knowledge-base to be able to scale up as soon as the markets improve As we enter the new financial year, we are seeing signs of stability returning to our key customers' markets and with that, confidence in their own operations and in demand for the Hardide technology

I would like to thank our customers for their confidence and support, and our employees for their commitment during a turbulent year We have gone through a period of retrenchment and consolidation but the Group has used the downtime wisely and enters the new financial year ready to manage the resumption of demand

Dr Graham Hine
Chief Executive Officer
14 December 2009

Financial Review

While the 2008/09 financial year started encouragingly for the Group, in Q2 we began to be affected badly by reduced demand in our end markets and savage inventory cuts by our largest customers

Our response was to reduce production resources in the UK to more closely align with demand, and to reduce overheads (both staff and non-staff) to a size more appropriate to the Group's needs, at the same time ensuring that we retained the capacity, expertise and resources to deal with resumption in demand from our existing customers and convert opportunities for new applications and customers

In spite of these actions, gross margins in the UK fell by 16%, although with production salaries excluded variable costs of sales remained stable Overheads in the UK operation were reduced by £492,000 (38%) to £794,000, and the timing of our cost reductions means that there should be a significant flow through into the current financial year Overall, Hardide Coatings Limited recorded a pre-tax loss of £324,000 against a loss of £133,000 in the prior year

We also took the decision to hibernate our facility in Houston and transfer all production to the UK Hardide Coatings Inc remains as a legal entity in the US and all the assets and fixtures at the plant have been left in situ so that production can be resumed when conditions allow The hibernation has resulted in an exceptional impairment charge against the fixed assets in Houston of $540,000 (£364,000) This reflects their current status as non-revenue earning, rather than any actual change in their effectiveness or capacity

Hardide Coatings Inc made a pre-tax loss of £834,000 (2008 £1,194,000) before inclusion of the impairment charge As with the UK, the timing of the suspension of operations in March, and the presence of costs which tailed through into the second half of the year, means that substantial cost reductions will flow through into the current financial year

A capital reorganisation of the Group was undertaken in the second half of the year, including raising £1,566,200 The conversion of £1,000,000 of existing loans into equity resulted in a one-off credit to finance costs of £78,000 as these loans had been treated as combined instruments since their inception in 2007

Overall, the actions we have taken, although painful, have substantially reduced the break even point of the Group and resulted in a much more sustainable business going forwards

Peter Davenport
Finance Director
14 December 2009

The Board of Directors

Robert John Goddard (58)
Non-Executive Chairman
Robert Goddard was appointed as non-executive chairman in January 2008 A chartered engineer, he was on the executive board of Burmah Castrol plc and previously managed its worldwide fuels business and a substantial portion of its chemicals business He subsequently joined Amberley Group PLC where he was Chief Executive, responsible for turning round and selling on its four speciality chemical subsidiaries Recently he has undertaken a variety of advisory and turnaround assignments He is also chairman of a group developing a waste-to-energy business

Dr (Richard) Graham Hine (55)
Chief Executive Officer
Graham Hine was appointed as chief executive officer in June 2008 He joined Hardide from P2i Limited where he was chairman and chief executive of the Ministry of Defence technology spin-out from Porton Down At P2i he oversaw the creation of the world's leading hydrophobic surface enhancement company Dr Hine began his career at Philips PLC and has subsequently held a number of director-level business development and general management roles He has more than twelve years of experience in chairman and CEO positions where he significantly grew shareholder value in technology-based companies in the advanced materials and sensor industries

Peter Neil Davenport (43)
Finance Director
Peter Davenport was appointed finance director of Hardide plc in March 2006 He joined Hardide in June 2005 as financial controller bringing ten years of financial management experience Mr Davenport was previously financial controller at the UK subsidiary of NYSE-listed global coatings company Valspar Corporation He is an associate of the Chartered Institute of Management Accountants

Dr Yuri Nikolaevich Zhuk (48)
Technical Director
Yuri Zhuk is a co-founder of Hardide Coatings Limited and is responsible for the company's technology, research & development, patenting and applications development programmes Previously, he co-founded Tetra Consult Ltd, a Moscow-based technology consultancy company where he specialised in international technology commercialisation and transfer delivering projects for companies including ICI, GM, Johnson & Johnson and Samsung Dr Zhuk holds an MBA from the Open University

Hugh Carlisle Smith (63)
Non-Executive Director
Hugh Smith joined the board of Hardide plc in March 2005 having been on the board of Hardide Coatings Limited since May 2003 He was formerly a senior export manager at British Leyland before helping to found Allmakes Limited, one of the UK's largest independent suppliers of Land Rover spare parts and where he was chairman until October 2006 He holds a number of non-executive directorships

William Yale Zakroff (59)
Non-Executive Director
William Zakroff joined the board of Hardide plc in June 2007 Based in Houston, Texas, he is the founder and CEO of Marinus Power LLC, a marine renewable energy firm, and is co-founder and a Director of SyncWave Systems Inc Mr Zakroff also continues to provide international business development and general management consulting services under Zakroff Group LP and is on the Advisory Board of Ingenero Inc Prior to founding Zakroff Group in 1984, he held various management positions within the advanced materials group of the General Electric Company (US)

REPORT OF THE DIRECTORS

Results
The group loss for the penod, after taxation, amounted to £1,789,000 (2008 £1,703,000 loss)

Directors
The present membership of the Board is set out on page 9 Changes to membership of the board during the year are shown below, as well as the beneficial interests of the directors and their families in the shares of the company

	Appointed	Resigned	30 September 2009 Number of shares	30 September 2008 Number of shares
Robert Goddard	28 January 2008		3,468,333	135,000
David Mott	14 March 2005	17 March 2009	-	-
Hugh Smith	14 March 2005		30,679,567	4,012,900
William Zakroff	26 June 2007		1,691,667	25,000
Graham Hine	2 June 2008		10,000,000	-
Yuri Zhuk	14 March 2005		6,031,132	4,364,465
Peter Davenport	21 March 2006		2,226,667	560,000

David Mott is a director of Oxford Capital Partners which holds 4,441,667 ordinary shares (2008 4,441,667)

No director had, during or at the end of the year, a material interest in any contract which was significant in relation to the company's business except as disclosed in Note 19 to the financial statements

Directors' interests in share options
The company has share option schemes under the terms of which directors are able to subscribe for ordinary shares in the company 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 annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) 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 judgments and accounting estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business, and
- state whether applicable International Financial Reporting Standards 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

In so far as the directors are aware

- there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

The directors are responsible for the maintenance and integrity of corporate and financial information included on the Company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Financial risk management objectives and policies

The Group uses various financial instruments including finance leases, equity and loans, and cash and various items, such as trade debtors and trade creditors that arise directly from its operations The main purpose of these financial instruments is to raise finance for the Group's operations The existence of these financial instruments exposes the Group to a number of financial risks The main risks are currency risk and interest rate risk The directors review and agree policies for managing each of these risks Further disclosure is provided in Note 20

Substantial shareholders

At 9th November 2009 the following shareholders had a disclosable interest in 3% or more of the nominal value of the company's shares

Name	Shareholding	%
R Boyce & Associates	246,312,225	29 5
A Badenoch & Associates	240,066,667	28 8
J M Finn Nominees Ltd	80,340,882	9 6
Hargreave Hale Nominees Ltd	55,461,000	6 6
William Samuel Clive Richards Esq	26,320,000	3 2
Allianz SE	26,139,332	3 1

Payment policy and practice

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with At 30 September 2009 the group had an average of 37 days outstanding in trade creditors (2008 34 days)

Corporate Governance

The board has the following committees

Remuneration

The Remuneration Committee comprises Hugh Smith (Chairman) and William Zakroff During the financial year the Remuneration Committee met on a number of occasions The remit of the committee is to determine the remuneration packages of the executive directors, approve any share option proposals for other employees (such proposals normally being put forward by the CEO), and undertake investigations regarding any potential disciplinary matters regarding Board members There has been no requirement to undertake any disciplinary investigations in the financial year 2008-9

The committee uses independent research to help to decide a fair level of remuneration for executive Directors In the case of the CEO the package is made up of a combination of salary, bonuses, share options and other benefits The level of bonuses is determined based on a combination of sales achieved and profitability No bonus was paid out to the CEO in the financial years 2008 or 2009

In the case of the Finance Director and Technical Director, their packages are made up of a combination of salary, other benefits and share options

Audit

The Audit Committee comprises William Zakroff (Chairman) and Hugh Smith, both non-executive directors of the company

The Committee oversees the monitoring of the Group's internal controls, accounting policies and financial reporting and provides a forum through which the external auditor's report It also reviews the scope and results of the external audit, the independence and objectivity of the auditors, and makes recommendations to the Board on issues surrounding the auditors' remuneration, appointment, resignation and removal The Committee is authorised by the Board to seek and obtain any information it requires from any officer or employee of the Company and to obtain external legal or other independent professional advice

During the year the company's auditor Critchleys Chartered Accountants, provided payroll services to the company and its UK subsidiary, Hardide Coatings Limited, until August 2009 when the company transferred its payroll service to another provider It is the Committee's view that this does not compromise the independence and objectivity of the auditor for the year in question

The Audit Committee has reviewed the effectiveness of the system of internal control throughout the year and up to the date that the financial statements were signed, and this review did not identify any significant findings or weaknesses

The Committee has reviewed and discussed the Company's audited financial statements with management, which has primary responsibility for the financial statements Critchleys Chartered Accountants, the Company's independent auditor, is responsible for expressing an opinion on the conformity of the Company's audited financial statements with generally accepted accounting principles Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report

Auditor

A resolution to reappoint Critchleys as auditor will be proposed at the Annual General Meeting

Business Review

The board regularly reviews both the financial position of the Group and non-financial performance information Financial information includes monthly balance sheets and profit and loss accounts for the group, company and subsidiaries, together with analysis of movements in cash, trade debtors and fixed assets Non-financial information reviewed by the board includes reports and key performance indicators including furnace performance, delivery performance, research and development activity, sales activity and health and safety During the year, the Company has made good progress in developing a number of non-financial KPIs which are enabling us to monitor, benchmark and improve our performance across a range of environmental, production, operations, sales and human resource measures

On behalf of the board,

G Hine
Director
14 December 2009

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HARDIDE PLC

We have audited the financial statements of Hardide Plc for the year ended 30 September 2009 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union 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(United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Sections 495 and 496 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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement (set out on page 10) the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2009 and of the group's loss for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice,
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation

Emphasis of matter-going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 1 concerning the group's ability to continue as a going concern should the group not fulfil its current plan for revenue, costs and cash flow These matters indicate the existence of a material uncertainty which may cast significant doubt over the company's ability to continue as a going concern The directors are confident that the plan will either be realised or that fresh funding will be available The financial statements do not include the adjustments that would result if the group was unable to continue as a going concern

Opinion on other matter prescribed by the Companies Act 2006

In our opinion

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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 our 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 or 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

Kevin Byrne (Senior Statutory Auditor)
for and on behalf of
CRITCHLEYS
STATUTORY AUDITOR
ABINGDON
14 December 2009

CONSOLIDATED INCOME STATEMENT
for the year ended 30 September 2009

	Note	2009 £000	2008 £000
Revenue	2	**1,209**	2,123
Cost of sales		**(854)**	(1,132)
Gross profit		**355**	991
Administrative expenses		**(1,477)**	(2,081)
Impairment of intangibles		**(2)**	
Depreciation and amortisation		**(330)**	(500)
Exceptional item Impairment of fixed assets		**(364)**	-
Operating loss	3	**(1,818)**	(1,590)
Finance income	4	**14**	37
Finance costs	5	**(13)**	(187)
Disposal of fixed asset		**(7)**	-
Loss on ordinary activities before taxation		**(1,824)**	(1,740)
Taxation	7	**35**	37
Loss on ordinary activities after taxation		**(1,789)**	(1,703)
Loss per share Basic	8	**(0 6)p**	(1 1)p
Loss per share Diluted	8	**(0 2)p**	(0 8)p

All operations are continuing

The accompanying accounting policies and notes form an integral part of these financial statements

CONSOLIDATED BALANCE SHEET
at 30 September 2009

	Note	2009 £000	2008 £000
Assets			
Non-current assets			
Goodwill	9	**69**	69
Intangible assets	10	**2**	4
Property, plant & equipment	11	**796**	1,366
Total non-current assets		**867**	1,439
Current assets			
Inventories	12	**26**	44
Trade and other receivables	12	**208**	325
Other current financial assets	12	**101**	160
Cash and cash equivalents	12	**932**	995
Total current assets		**1,267**	1,524
Total assets		**2,134**	2,963
Liabilities			
Current liabilities			
Trade and other payables	13	**259**	356
Financial liabilities	13	**118**	110
Total current liabilities		**377**	466
Net current assets		**890**	1,058
Non-current liabilities			
Financial liabilities	14	**748**	1,162
Total non-current liabilities		**748**	1,162
Total liabilities		**1,125**	1,628
Net assets		**1,009**	1,335
Equity attributable to equity holders of the parent			
Share capital	16	**2,541**	1,896
Share premium	17	**5,259**	4,102
Retained earnings	17	**(6,481)**	(4,705)
Share-based payments reserve	17	**274**	347
Translation reserve	17	**(584)**	(305)
Total equity		**1,009**	1,335

The financial statements were approved and authorised for issue by the Board on 14 December 2009

R G Hine

Graham Hine
Director

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 30 September 2009

	Note	2009 £000	2008 £000
Cash flows from operating activities			
Operating loss		**(1,818)**	(1,590)
Impairment of intangibles		**2**	3
Depreciation		**330**	497
Impairment of fixed assets		**364**	-
Share option charge		**64**	50
Decrease in inventories		**18**	55
Decrease in receivables		**181**	310
Decrease in payables		**(97)**	(155)
Exchange rate variance		**(377)**	(391)
Cash generated from operations		**(1,333)**	(1,221)
Finance income		**14**	37
Finance costs		**(75)**	(108)
Tax received / (paid)		**36**	26
Net cash generated from operating activities		**(1,358)**	(1,266)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(30)**	(127)
Net cash used in investing activities		**(30)**	(127)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital		**802**	1,173
Finance lease inception		**-**	-
Finance lease repayment		**(110)**	(145)
New loans raised		**633**	225
Net cash used in financing activities		**1,325**	1,253
Net increase / (decrease) in cash and cash equivalents		**(63)**	(140)
Cash and cash equivalents at the beginning of the year		**995**	1,135
Cash and cash equivalents at the end of the year		**932**	995

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
for the year ended 30 September 2009

	Note	2009 £000	2008 £000
Exchange differences on translation of foreign operations		**(279)**	(335)
Net income recognised directly in equity		**(279)**	(335)
Loss for the year		**(1,789)**	(1,703)
Total recognised income and expense for the year		**(2,068)**	(2,038)

NOTES TO THE GROUP FINANCIAL STATEMENTS

1 Accounting policies

Accounting convention
The group previously reported its financial statements under UK Generally Accepted Accounting Practice (GAAP) From 1 October 2007 the group is required to prepare its financial statements in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and Interpretations (IFRIC)

First time adoption of IFRS
The group's transition date to IFRS was 1 October 2006, which is the beginning of the comparative period for the year ended 30 September 2007 The group has applied IFRS1 for the first time adoption of IFRS and has elected to use the following exemptions

- Business combinations – business combinations that took place prior to 1 October 2006 have not been restated,

- Share-based payment – the group has applied the requirements of IFRS2 Share-based payments to all grants of equity instruments after 7 November 2002 that were unvested as of 1 October 2006

Standards, interpretations and amendments to published standards not yet effective
Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 October 2008 or later periods and which the group has decided not to adopt early These are

- IFRS 8, Operating Segments (effective for accounting periods beginning on or after 1 January 2009) This standard sets out requirements for the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers It replaces IAS 14, Segmental Reporting As this is a disclosure standard, it will not have any impact on the results or net assets of the group

- IAS 1, Presentation of Financial Statements – a revised approach (effective for accounting periods beginning on or after 1 January 2009) As this is a disclosure standard, it will not have any impact on the results or net assets of the group

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

Going Concern
The directors believe that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future This belief is based on the Group's current business plan and in particular its plan for revenues, costs and cash flows, as well as the availability of fresh funding In particular, the group's aggressive attack on costs will mean overheads continue to fall into the current year and result in a much lower break-even point The plan for the current year is based on a conservative view of recovery in the group's markets and customers and this plan does not show a need for further funding Initial performance against that plan would seem to indicate that it is robust and achievable

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 September each year

Control is achieved where Hardide plc has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases

Transactions between and balances with group companies are eliminated together with unrealised gains on inter-company transactions Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group

Acquisitions are accounted for by the purchase method The cost of an acquisition is measured as the fair value at the date of exchange of the consideration provided plus any costs directly attributable to the acquisition On acquisition, the assets and liabilities and contingent liabilities of the acquired business that meet the conditions for recognition under IFRS 3 are measured at their fair values at the date of acquisition Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is credited to profit or loss in the period of acquisition

Revenue recognition

Revenue represents the invoiced amount of goods sold and services provided during the period, excluding value added tax and other sales taxes, trade discounts, and intra-group sales Revenue is recognised when performance has occurred and a right to consideration has been obtained This is normally when goods have been despatched or services provided to the customer, title and risk of loss have been transferred and collection of related receivables is probable

Research and development

Expenditure on research and development costs is charged to the income statement in the period in which it is incurred unless such costs should be capitalised under the requirements of the applicable standard, which is only when the future economic benefits expected to arise are deemed probable and the costs can be reliably measured

Intangible assets Goodwill

Goodwill represents the excess of the cost of acquisition over the Company'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 Development costs

Capitalised development costs are amortised on a straight line basis over their useful economic lives once the product is available for use

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

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

Borrowing costs related to the purchase of fixed assets are not capitalised

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

Leases
Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are included in the balance sheet at fair value or, if lower, at the present value of the minimum lease payments Depreciation is charged over the useful economic life of the assets Lease payments are apportioned between the finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the lease

Financial Instruments
The group does not enter into hedging or speculative derivative contracts

Financial assets and liabilities are recognised on the group's balance sheet 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

Compound instruments
Compound instruments comprise both a liability and an equity component The elements of a compound instrument are classified in accordance with their contractual provisions At the date of issue, the liability component is recorded at fair value, which is estimated using the prevailing market interest rate for a similar debt instrument without the equity feature Thereafter, the liability component is accounted for as a financial liability in accordance with the accounting policy set out above The residual is the equity component, which is accounted for as an equity instrument

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 three months 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

Foreign currencies
The company'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 balance sheet 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 balance sheet 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 stakeholder scheme for its employees, but does not make any 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 balance sheet date

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet 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 balance sheet 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

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 balance sheet date All borrowing costs are recognised in the income statement in the period in which they are incurred

Provisions
Provisions are made when the group has a present obligation as a result of past events, it is more likely than not that an outflow of economic benefits will be required to settle the obligation, and the amount can be reliably estimated Provisions are discounted to present value where the impact is significant, using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation

2 Segmental analysis

The structure and management of the group is on a geographical basis, and this is the primary segment Information about these segments is presented below

Year ended 30 September 2009

	UK £000	USA £000	Corporate £000	Consolidated £000
Revenue				
External sales	1,086	123	-	1,209
Inter-segment sales	-	-	-	-
Total revenue	**1,086**	**123**		**1,209**
Segment result	(308)	(1,190)	(320)	(1,818)
Unallocated expenses	-	-	-	-
Operating profit	**(308)**	**(1,190)**	**(320)**	**(1,818)**
Finance income	3	-	11	14
Finance costs	(19)	(1)	7	(13)
Disposal of fixed asset	-	(7)	-	(7)
Profit before tax	**(324)**	**(1,198)**	**(302)**	**(1,824)**
Taxation	-	-	35	35
Profit after tax	**(324)**	**(1,198)**	**(267)**	**(1,789)**

Balance sheet

	UK £000	USA £000	Corporate £000	Eliminations £000	Consolidated £000
Assets	858	288	2,409	(1,421)	2,134
Liabilities	614	4,767	779	(5,035)	1,125
Net assets/(liabilities)	244	(4,479)	1,630	3,614	1,009

Other information

	UK £000	USA £000	Corporate £000	Consolidated £000
Cost incurred to acquire assets	8	22	-	30
Impairment of intangibles	2	-	-	2
Depreciation and amortisation	215	115	-	330
Impairment of tangible fixed assets	-	364	-	364
Other significant non-cash expenses				
Share-based payments	3	-	61	64
Intercompany management charges	93	24	(117)	-

The group currently has a single class of business, so no secondary analysis is presented Turnover by geographical destination is as follows

External sales	UK £000	Europe £000	N America £000	Rest of World £000	Total £000
2009	935	28	245	1	1,209
2008	1,823	20	268	12	2,123

3 Operating profit

This is stated after charging

	2009 £000	2008 £000
Impairment of intangible fixed assets	2	3
Depreciation of tangible fixed assets	330	497
Impairment of tangible fixed assets	364	3
Auditor's remuneration		
fees payable to the company's current auditor for the audit of the company's 2008 annual accounts	10	12
other services	1	1
Fees payable to the company's previous auditor for the audit of the company's 2007 annual accounts	-	4
Cost of inventory recognised as an expense	188	282
Research and development	145	151
Operating lease rentals - plant and machinery	19	19
- property	212	184
Share option expense	64	50

4 Finance income

	2009 £000	2008 £000
Interest on bank deposits	14	37

5 Finance costs

	2009 £000	2008 £000
Interest on loans	54	78
Interest on finance leases	18	29
Finance charges on combined instruments	(62)	79
Other interest payable	3	1
	13	187

The credit against combined instruments relates to the dissolution of combined instruments before maturity, for which notional interest had previously been charged to profit

6 Employees

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

	2009 Number	2008 Number
Technical	11	9
Production	10	13
Sales and marketing	3	5
Management and admin	8	10
	32	**37**

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

	2009 £000	2008 £000
Wages and salaries	1,172	1,467
Social security costs	115	148
Share option expense	64	50
	1,351	**1,665**

The amounts received by each director during the year were as follows

			2009 £000
Dr Graham Hine (Chief Executive)		Salary	120
		Car allowance	10
Dr Yuri Zhuk (Technical Director)		Salary	68
		Car allowance	9
Peter Davenport (Finance Director)		Salary	57
Robert Goddard (Non-Executive Chairman)		Fees	30
David Mott (Non-Executive Director)	To March 2009	Fees	6
Hugh Smith (Non-Executive Director)		Salary	13
William Zakroff (Non-Executive Director)		Fees	13
Total directors' remuneration			**326**

No bonuses were paid to directors during the year

7. Taxation

	2009 £000	2008 £000
UK corporation tax on the loss for the year	-	-
R&D tax credit	35	36
Adjustment in respect of prior year R&D tax credits	-	1
Adjustment in respect of prior year UK corporation tax	-	-
	35	37

The group has unutilised tax losses in the UK of approximately £7 8m (2008 £6 0m)

8 Earnings per ordinary share

	2009 £000	2008 £000
Loss on ordinary activities after tax	(1,789)	(1,703)
Basic earnings per ordinary share		
Weighted average number of ordinary shares in issue	318,522,236	157,433,902
Earnings per share	(0 6)p	(1 1)p
Fully diluted earnings per ordinary share		
Number of ordinary shares in issue	834,042,238	189,642,236
Outstanding share options	88,703,334	24,308,332
Convertible loans	190,666,666	5,000,000
Total	1,113,412,238	218,950,568
Earnings per share	(0 2)p	(0 8)p

9 Goodwill

	£000
Cost at 1 October 2008 and 30 September 2009	69
Net book value at 1 October 2008 and 30 September 2009	69

Goodwill relates to the acquisition of Isle Hardide Limited by Hardide Coatings Limited

10 Intangible assets

	£000
Cost at 1 October 2008 and 30 September 2009	9
Net book value at 1 October 2008	4
Impairment charge	2
Net book value at 30 September 2009	2

11 Property, plant and equipment

	Leasehold buildings	Plant, vehicles and fixtures	Computer equipment	Total
	£000	£000	£000	£000
Cost at 1 October 2008	221	2,812	167	**3,200**
Additions	-	29	1	30
Disposals	-	(21)	-	(21)
Exchange differences	2	94	6	102
Cost at 30 September 2009	223	2,914	174	**3,311**
Depreciation at 1 October 2008	116	1,602	116	**1,834**
Provided in the year	19	289	22	330
Disposals	-	(11)	-	(11)
Impairment	3	336	25	364
Exchange differences	-	(1)	(1)	(2)
Depreciation at 30 September 2009	138	2,215	162	**2,515**
Net book value at 1 October 2008	105	1,210	51	**1,366**
Net book value at 30 September 2009	85	699	12	**796**

The net book value of plant & machinery includes £387,000 (2008 £446,000) in respect of assets held under finance leases Depreciation on these assets amounted to £59,000 (2008 £59,000)
Following the hibernation of Hardide Coatings Inc's facility in Houston, an exceptional impairment charge of £364,000 was incurred to reflect the current status of the assets there as non-revenue earning

12 Current assets

Inventories	2009	2008
	£000	£000
Raw materials and consumables	26	44
Work in progress	-	-
	26	**44**

Trade and other receivables	2009	2008
	£000	£000
Trade receivables	148	263
Other receivables	60	62
	208	**325**

Other current financial assets	2009	2008
	£000	£000
Prepayments	50	100
Accrued income	35	49
Recoverable VAT	16	11
	101	**160**

Cash and cash equivalents	2009	2008
	£000	£000
Sterling	917	933
Euro	-	-
US Dollar	15	62
	932	**995**

13 Current liabilities

Trade and other payables	2009	2008
	£000	£000
Trade payables	139	182
Taxation and social security costs	35	97
Accruals	85	77
	259	**356**

Current financial liabilities relate to finance leases

14 Non-current other financial liabilities

	2009	2008
	£000	£000
Finance leases	55	173
Loans	693	989
	748	**1,162**

All non-current financial liabilities are denominated in sterling The amount shown above is the book value of the debt The loans have been classified as combined instruments under IAS 32 The loans are discounted using an appropriate internal rate of return, as shown below The table below shows the total amounts repayable and their profile Details of the movements of loans are given in note 16

Maturity profile	Loans		Finance leases	
Total amount repayable	2009	2008	2009	2008
	£000	£000	£000	£000
In one year or less	-	-	128	110
In more than one but not more than two years	-	1,000	57	118
In more than two but not more than five years	858	225	-	55
	858	**1,225**	**185**	**283**

Interest on the finance leases is fixed at a weighted average interest rate of 7 9%

Repayment and interest rate information on the loans is as follows

£225,000	Repayable June 2013	Fixed rate 8% payable annually	IRR 11%
£633,000	Repayable August 2014	Fixed rate 8% payable annually	IRR 15%

15 Total commitments under operating leases

	Land and buildings		Plant	
	2009	2008	2009	2008
	£000	£000	£000	£000
In one year or less	-	-	1	2
In two to five years	163	-	41	58
In more than five years	1,101	1,382	-	-
	1,264	**1,382**	**42**	**60**

16 Share capital

	2009		2008	
	Number 000	Value £000	Number 000	Value £000
Authorised ordinary shares of 1p each	-	-	250,000	2,500
Allotted ordinary shares of 1p each	-	-	189,642	1,896
Authorised ordinary shares of 0 1p each	1,750,000	1,750	-	-
Authorised deferred shares of 0 9p each	250,000	2,250	-	-
Allotted ordinary shares of 0 1p each	834,042	834	-	-
Allotted deferred shares of 0 9p each	189,642	1,707	-	-

On 20th July 2009 the share capital of Hardide plc was reorganised following resolutions passed at a General Meeting of Hardide plc on 17th July 2009 The authorised share capital of 250 million 1p ordinary shares was subdivided into 250 million 0 1p ordinary shares and 250 million 0 9p deferred shares The authorised share capital was increased by the addition of a further 1,500 million 0 1p ordinary shares 311,066,667 ordinary 0 1p shares were placed with shareholders at a price of 0 3p, raising £933,200 before expenses

On the same date £1,000,000 of loans were converted into 0 1p ordinary shares at a price of 0 3p per share, resulting in the issue of 333,333,334 shares in consideration

On 5th August 2009 Hardide plc issued £633,000 8% unsecured convertible loan notes of £1 each repayable in August 2014, with a conversion price of one ordinary share per 0 45p of loan note The conversion price of the existing £225,000 8% unsecured convertible loan notes of £1 each maturing in June 2013 was amended from one ordinary share per 4 5p of loan note to one ordinary share per 0 45p of loan note These notes are convertible at any time prior to repayment, and are shown as long-term liabilities in the balance sheet

17 Analysis of changes in equity

	Share Capital	Share Premium	Share-based Payments	Foreign Translation	Retained Earnings	Total Equity
At 1 October 2008	1,896	4,102	347	(305)	(4,705)	1,335
Issue of new shares	645	1,157				1,802
Employee share options			60		13	73
Combined instruments			(133)			(133)
Exchange translation				(279)		(279)
Loss for the year					(1,789)	(1,789)
At 30 September 2009	**2,541**	**5,259**	**274**	**(584)**	**(6,481)**	**1,009**

The increase in share capital relates to the issue of a total of 644,400,001 ordinary 0 1p shares for 0 3p as detailed in note 16 above The increase in share premium relates to these issues less the associated costs

The movement in the share-based payment reserve comprises employee share options, including the acceleration of vesting on cancellation of options on 17th July, and the net effect of the issue of convertible loan notes on 5th August and the extinguishing of existing combined instruments

18 Share-based payment

	Number	Weighted average exercise price
Outstanding at 1 October 2008	24,308,332	5p
Exercisable at 1 October 2008	8,333,334	9p
Granted during year	500,000	3p
Cancelled during year	11,959,999	3p
Forfeited during year	4,514,999	3p
Options granted under new scheme	80,370,000	0 45p
Outstanding at 30 September 2009	88,703,334	0 45p
Exercisable at 30 September 2009	8,333,334	0 45p

On 17th July 2009 the directors and employees of the group were granted new share options priced at 0 45p each All outstanding employee share options at that date were cancelled The vesting criteria are a combination of time-based (maximum 30%) and performance-based

The current directors' interests in share options, all of which are priced at 0 45p, are as follows

	Number
Robert Goddard (Chairman)	6,681,000
Graham Hine (Chief Executive)	31,081,000
Yuri Zhuk (Technical Director)	8,351,000
Peter Davenport (Finance Director)	8,351,000

The company entered into a loan arrangement in September 2007 which involved the granting of 8,333,334 options with an exercise price of 12p expiring in September 2010 In June 2008 these options were repriced to 9p and the expiry date extended to September 2011 In July 2009 these options were repriced to 0 45p and the expiry date extended to July 2012

The fair values of the July 2009 employee options granted were measured by the use of a Black-Scholes pricing model The assumptions used in the model are as follows Volatility of 85%, dividend yield of nil, risk-free interest rate of 3%, and an average weighted expected life of options of 3 5 years

19 Related party transactions

Hardide Coatings Ltd spent £5,234 (2008 £4,709) with BCB Environmental Management Ltd for waste disposal, of which £1,448 (2008 Nil) remained outstanding at the year end Robert Goddard is chairman of both Hardide plc, the parent company of Hardide Coatings Ltd, and AWP Environmental Ltd, the parent company of BCB Environmental Management Ltd

Hardide Coatings Inc spent $600 (2008 Nil) with Zakroff Group LLP for the provision of administrative services following the hibernation of the Houston operation William Zakroff is a non-executive director of Hardide plc, and is the owner of Zakroff LLP

20 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 uses financial instruments comprising borrowings, cash, liquid resources and various items such as trade debtors and creditors that arise directly from its operations Exposure to credit, liquidity and market 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

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 2009 and the maturity profile of the carrying value of the Group's financial liabilities are shown in note 14 The group's policy is to ensure that it has sufficient cash to allow it to meet its liabilities The board receives forecast cash flows on a monthly basis and uses these as the basis for forward planning

Market 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 risk also arises when group companies enter into transactions denominated in a currency other than their functional currency

Fair value
The directors consider that the fair values of the financial instruments of the Group are not significantly different from their book value

PARENT COMPANY BALANCE SHEET
at 30 September 2009
Prepared in accordance with UK Generally Accepted Accounting Policies

	Note	2009 £000	2008 £000
Assets			
Non-current assets			
Investments	3	**1,100**	1,100
Amounts owed by group undertakings	4	**4,698**	-
Provision	4	**(4,698)**	-
Total non-current assets		**1,100**	1,100
Current assets			
Trade and other receivables	5	**404**	4,009
Cash and cash equivalents		**905**	830
Total current assets		**1,309**	4,839
Total assets		**2,409**	5,939
Liabilities			
Current liabilities			
Trade and other payables	6	**86**	84
Total current liabilities		**86**	84
Net current assets		**1,223**	4,755
Non-current liabilities			
Financial liabilities	7	**693**	989
Total non-current liabilities		**693**	989
Total liabilities		**779**	1,073
Net assets		**1,630**	4,866
Equity			
Share capital	8	**2,541**	1,896
Share premium	9	**5,259**	4,102
Retained earnings	9	**(6,431)**	(1,465)
Share-based payments reserve	9	**261**	333
Total equity		**1,630**	4,866

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 £4,964,000 (2008 loss of £416,000)

The accompanying notes form an integral part of these financial statements

The financial statements were approved and authorised for issue by the Board on 14 December 2009

R G Hine

Graham Hine
Director

NOTES TO THE PARENT COMPANY ACCOUNTS

Basis of preparation
The accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom Generally Accepted Accounting Practice and the Companies Act 2006

1 Summary of significant accounting policies

Foreign currency translation
Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date Transactions in foreign currencies are translated at the rate of exchange ruling at the date of transaction Any differences are dealt with through the profit and loss account

Research and development
Research and development expenditure is charged to the profit and loss account in the period in which it is incurred

Investments
Investments are stated at cost

Financial instruments
The company does not enter into hedging or speculative derivative contracts The company uses financial instruments primarily to manage exposures in fluctuations in foreign currency exchange rates and interest rates 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 assets are recognised in the balance sheet at the lower of cost and net realisable value Provision is made for diminution in value where appropriate

Classification as equity or financial liability
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 profit and loss account The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability An equity instrument is any contract that evidences a residual interest in the assets of the group / company after deducting all of its liabilities Dividends and distributions relating to equity instruments are debited directly to reserves

Compound instruments
Compound instruments comprise both a liability and an equity component The elements of a compound instrument are classified in accordance with their contractual provisions At the date of issue, the liability component is recorded at fair value, which is estimated using the prevailing market interest rate for a similar debt instrument without the equity feature Thereafter, the liability component is accounted for as a financial liability in accordance with the accounting policy set out above The residual is the equity component, which is accounted for as an equity instrument

Pensions
The company operates a stakeholder pension scheme for its employees, but does not make any contributions to it

Share-based Payments
In accordance with FRS 20, 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 company's estimate of options that will eventually vest The fair value of share options is measured by the Black-Scholes pricing model

2 Employees

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

	2009 Number	2008 Number
Management and admin	4	4
Sales and marketing	1	2
Technical	2	1

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

	2009 £000	2008 £000
Wages and salaries	382	443
Social security costs	41	44
Share option expense	61	23
	484	**510**

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

3 Investments

	£000
Investments in subsidiaries at 1 October 2008 and 30 September 2009	1,100

At 30 September 2009 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 Incorporated	Ordinary	100%	USA	Surface engineering

4 Amounts owed by group undertakings

The amounts owed by Hardide Coatings Inc amounting to £4,698,000 (2008 £3,647,000) has been classified as a non-current asset Due to the hibernation of the Houston facility in March 2009, a provision has been made for the full amount owed because of doubts about its recoverability This provision has been charged to the profit and loss account in the year

5 Trade and other receivables

	2009 £000	2008 £000
Amounts owed by group undertakings	337	3,935
Prepayments and accrued income	16	27
Taxation recoverable	51	47
Other debtors	-	-
	404	**4,009**

The amount shown in receivables as owed by group undertakings in 2009 relates only to debt owed by Hardide Coatings Limited It is the directors' belief that this will be fully recoverable in the short term The amount for 2008 was made up of £288,000 owed by Hardide Coatings Limited and £3,647,000 owed by Hardide Coatings Inc

6 Trade and other payables

	2009	2008
	£000	£000
Trade creditors	31	37
Social security and other taxes	12	12
Accruals and deferred income	43	35
	86	**84**

7 Financial liabilities

	2009	2008
	£000	£000
Loans	693	989
Loans are repayable as follows		
In one year or less	-	-
In more than one but not more than two years	-	788
In more than two but not more than five years	693	201

The above loans have been classified as combined instruments under FRS25 The amounts shown have been discounted by an appropriate internal rate of return The actual amounts repayable are as follows

	2009	2008
	£000	£000
In more than one but not more than two years	-	1,000
In more than two but not more than five years	858	225

Details of the changes in financial liabilities can be found in note 14 to the group financial statements

8 Share capital

	2009		2008	
	Number	Value	Number	Value
	000	£000	000	£000
Authorised ordinary shares of 1p each	-	-	250,000	2,500
Allotted ordinary shares of 1p each	-	-	189,642	1,896
Authorised ordinary shares of 0 1p each	1,750,000	1,750	-	-
Authorised deferred shares of 0 9p each	250,000	2,250		
Allotted ordinary shares of 0 1p each	834,042	834	-	-
Allotted deferred shares of 0 9p each	189,642	1,707	-	-

Details of the movement in share capital can be found in note 16 to the group financial statements

9 Reserves

	Share Capital	Share Premium	Other Reserve	Retained Earnings	Total Equity
At 1 October 2008	1,896	4,102	333	(1,465)	4,866
Issue of new shares	645	1,157			1,802
Employee share options			61	(2)	59
Combined instruments			(133)		(133)
Retained loss for the year				(4,964)	(4,964)
At 30 September 2009	**2,541**	**5,259**	**261**	**(6,431)**	**1,630**

Details of the movement in reserves can be found in note 17 to the group financial statements

10 Capital commitments

The company has no capital commitments at 30 September 2009 or 30 September 2008

11 Contingent liabilities

There were no contingent liabilities at 30 September 2009 or 30 September 2008

12 Related party transactions

Hardide Coatings Ltd spent £5,234 (2008 £4,709) with BCB Environmental Management Ltd for waste disposal, of which £1,448 (2008 Nil) remained outstanding at the year end Robert Goddard is chairman of both Hardide plc, the parent company of Hardide Coatings Ltd, and AWP Environmental Ltd, the parent company of BCB Environmental Management Ltd

Hardide Coatings Inc spent $600 (2008 Nil) with Zakroff Group LLP for the provision of administrative services following the hibernation of the Houston operation William Zakroff is a non-executive director of Hardide plc, and is the owner of Zakroff LLP

13 Post balance sheet events

There are no post balance sheet events to report

14 Cash flow statement

The company is exempt from the requirement to publish a cash flow statement because a cash flow statement for the group is included in the group financial statements

15 Share-based payment

	Number	Weighted average exercise price
Outstanding at 1 October 2008	17,603,333	6p
Exercisable at 1 October 2008	8,333,334	9p
Cancelled during year	(9,250,000)	3p
Forfeited during year	(20,000)	3p
Granted during year	64,260,000	0 45p
Outstanding at 30 September 2009	72,593,334	0 45p
Exercisable at 30 September 2009	8,333,334	0 45p

On 17th July 2009 the company granted directors and employees new share options priced at 0 45p each All outstanding employee share options at that date were cancelled The vesting criteria are a combination of time and performance-based

The current directors' interests in share options, all of which are priced at 0 45p, are as follows

	Number
Robert Goddard (Chairman)	6,681,000
Graham Hine (Chief Executive)	31,081,000
Yuri Zhuk (Technical Director)	8,351,000
Peter Davenport (Finance Director)	8,351,000

The company entered into a loan arrangement in September 2007 which involved the granting of 8,333,334 options with an exercise price of 12p expiring in September 2010 In June 2008 these options were repriced to 9p and the expiry date extended to September 2011 In July 2009 these options were repriced to 0 45p and the expiry date extended to July 2012

The fair values of the July 2009 employee options granted were measured by the use of a Black-Scholes pricing model The assumptions used in the model are as follows Volatility of 85%, dividend yield of nil, risk-free interest rate of 3%, and an average weighted expected life of options of 3 5 years