5344714

Hardide Plc

Financial Statements

For the year ended 30 September 2012

Hardide plc is a public limited company domiciled in the UK and incorporated in England & Wales with Registered Number 5344714
The address of the Registered Office and principal place of business is
11 Wedgwood Road, Bicester, Oxon OX26 4UL, United Kingdom

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HIGHLIGHTS

Financial

- Group turnover increased by 49% to £2 91 m (2011 £1 95 m)
- Gross profit rose by 73% to £2 09 m (2011 £1 21 m)
- Group EBITDA increased by £747k to £522k (2011 loss £225k)
- Maiden operating profit at Group level £378k (2011 loss £340k) and Group profit before tax improved by £711k to £265k (2011 loss before tax £446k)
- UK operation, Hardide Coatings Limited, posted full-year pre-tax profit of £1 06 million (2011 £409k), an increase of 161%
- US sales increased 56% to £581k (2011 £373k)
- Profit per share 0 03p (2011 loss of 0 05p)
- Positive cash flow from operating activities of £449k (2011 outflow of £177k)
- Successful placing of £750k new equity with new and existing shareholders in November 2011
- Cash at bank at 30 September 2012 of £1 40 million (2011 year end of £292k), markedly stronger balance sheet

Operational and corporate

- Philip Kirkham appointed as Chief Executive Officer
- Lower dependence on a few large customers and total number of repeat customers increased by 45%
- Airbus test programme continues to deliver encouraging results with generic testing by customer expected to be complete in 2013 Indications of potential aerospace applications for Hardide beyond hard chrome replacement
- Andrew Boyce, representing a significant family shareholding, appointed as Non-executive Director

Post-period events

- New approach to strategic marketing, branding and messaging
- A programme in place for further investment in sales and marketing

CHAIRMAN'S STATEMENT AND REVIEW

FINANCIAL OVERVIEW

It is pleasing to report Hardide's strongest financial performance since incorporation, and by a considerable margin

Sales revenue for the year ended 30 September 2012 rose by 49% to £2 91 million (2011 £1 95 million) and there was a maiden operating profit at Group level of £378k, and EBITDA of £522k (2011 £225k loss) Group profit before tax increased to £265k, up by £711k on a loss of £446k in FY 2011

Costs of sales increased by only 12% to £820k (2011 £733k) This was due to fixed production salaries and improved utilisation of assets This resulted in a 10% increase in gross margin to 72% (2011 62%), meaning that gross profit rose by over 70% to £2 09 million (2011 £1 21 million)

A well-deserved staff bonus, as well as the recruitment cost for the new CEO and three other new staff, accounted for most of the 9% increase in expenses to £1 57 million (2011 £1 44 million)

In November 2011, in a placing to new and existing investors, the Group raised £750,000 (gross) from the issue of 125,000,000 new ordinary shares at 0 6p per share The proceeds are being used to bolster sales, undertake modest capital expenditure and develop the skills and technology base within the Group

BUSINESS REVIEW

Customers and Markets

The recovery in demand seen at the end of the previous financial year continued and FY 2012 sales were significantly higher than in FY 2011 across each of our market sectors Revenue from the oil and gas sector increased by 43%, flow control (mainly pumps and valves) by 49% and advanced engineering, including aerospace tripled, albeit from a fairly low base It is also encouraging that the number of repeat customers increased by 45% over the period

During the year we added one of the largest global providers of oilfield services and products to our customer list with repeat production sales on coatings for two downhole components and a third in test for this same customer We are now working on new applications for five other major oilfield services companies New orders were secured from two leading-edge drilling tool developers and tests are underway with several more downhole and drilling-related companies

Highlights in the flow control sector included the first production order from a new 'severe service' valve manufacturer, regular monthly orders from a new pump manufacturer, Hardide specified on a new high-pressure valve range and approved on a valve application for a blue chip oilfield services company Also of note is our cooperation with EDF Energy by which Hardide has been specified as a solution to a problem with a steam valve at Hinkley Point B nuclear power plant EDF Energy is now evaluating the coating for other applications

The Group has been following a range of opportunities arising from its membership of the British Valve and Actuators Association and the Valve Manufacturers Association of America Awareness of the Hardide technology in this sector is improving, but the majority of our valve sales are still to UK customers To address this, the coming year will see a plan to develop our valve customer base in Europe at the same time as expanding our pump business in the region

A significant growth in sales to the advanced engineering sector was achieved in the year This was due to some recovery in demand from customers affected by the economic downturn and also the successful outcome of some long-running test programmes Commercial success was achieved in coating titanium, with the first regular production order on a Formula 1 motorsport application The directors believe that the success in coating this important but difficult base material for an exacting customer will open up a range of applications in other industries

Our traditional markets and customers still accounted for the majority of revenue However, the improved diversity of the pipeline, together with a re-focused business development strategy and further increases in our business development resources gives us confidence that we will make steady progress in widening our customer base in the coming year and beyond

Directors and management

In June 2012, we welcomed our long-standing shareholder Andrew Boyce as a non-executive director The Boyce family shareholding amounts to 26 5% of the Group's issued share capital and the family has had a stake in Hardide plc since 2003 Andrew is a seasoned entrepreneur and investor, having established and operated a number of successful businesses He has made a valuable contribution to the board since his appointment and we are very pleased that he has found the time to serve the Company

In September 2012, after a prolonged search we were pleased to announce the appointment of Philip Kirkham as our new chief executive officer Since then, Bruce Robinson and I have resumed our normal non-executive roles

Philip brings impressive CEO and international experience with a strong background in marketing, sales and production in the metal processing sector A Chartered Engineer (CEng) and a European Engineer (Eur Ing) with a BSc in Chemical Engineering and an MSc in Advanced Manufacturing Management, he has held senior management and CEO positions in Rolls Royce plc, Firth Rixson Ltd and the private equity backed Material Advantage Group Ltd

His immediate focus is the development of the sales and marketing side of the business The first elements of new strategies have been developed and these focus initially on achieving more sales to our existing oil & gas and flow control markets where we have good track record and proven technical success The plan so far sees increased investment in sales and marketing, including additional business development staff and raising the awareness of the Hardide coating and potential applications among new adopters We already appointed a second UK-based business development manager in September 2012 to exploit the oil and gas sector and are planning to recruit a third business development manager in the near future

I am pleased to report that the Group was able to reward employees with a maximum bonus payout this year It was very pleasing for the board to be able to recognise in this way the outstanding loyalty and commitment of staff in meeting the challenges of the last few years

UK: Hardide Coatings Limited

The UK operating company, Hardide Coatings Limited posted a record full year profit, with a PBT of £1 06 million (2011 £409k) on revenue of £2 91 million (2011 £1 95 million) – an increase of 161% Material and other costs remained stable and the percentage gross profit margin increased by 10% during the year

The UK plant processed all sales to the US, which rose by 56% compared with FY 2011 Efficient customer communications and logistics continued to ensure no adverse effect on lead times The Houston manufacturing facility remains hibernated with the plant in-situ and will remain so until demand and UK capacity are such that it makes economic sense to re-open The costs of hibernation remain minimised and stable A study was conducted during the year to determine the conditions that would allow the re-opening of the facility and the resources and timescales required to do so

Accreditations under AS9100, ISO9001 and ISO14001 were maintained during the year and the Group continues to strive for the highest standards in these vital areas

The excellent safety record remains in place with no lost-time incidents recorded during the year

Technology, Research & Development

The past year saw a number of production orders emerging from the development pipeline, including some notable technical achievements

The technical, engineering and production teams successfully adapted the Hardide process to enable the coating of the interior of hundreds of small holes in a component for a major coatings company This technical achievement has resulted in regular repeat orders and has unlocked our ability to coat extremely complex shaped parts made of low-chromium steel It also triggered the successful development of a new pre-treatment technique

We received our first production order for coating on titanium after a successful test programme with a Formula 1 motorsport company

The test programme continues with Airbus to deliver encouraging results, with generic testing expected to be complete in 2013 Indications are that there could be a wider range of applications beyond using the Hardide coating solely as a replacement for hard chrome Test programmes are also underway with four other major aerospace manufacturers These are long-term test programmes and include two new opportunities that have been developed during the year

Other medium to long-term strategic development projects continue in other areas, including aerospace, defence, industrial turbine blades, oil and gas drilling and pumps

The Hardide technology has been presented at several prestigious conferences in the oil & gas, flow control and surface engineering sectors in the UK and overseas throughout the year

OUTLOOK

We have begun the current year with steady customer demand and a good quality pipeline, with a rise in enquiries for new applications and the acceleration of some oilfield test programmes Indications from our major customers are that they are forecasting to remain buoyant throughout the coming year, although this may be influenced by global economic circumstances

Our investment in technology and marketing will rise further in the coming year, much of that increase will be in pursuit of benefits to be realised in the years beyond in the form of new applications and new market sectors Our markedly stronger balance sheet enables us to increase spending with much greater confidence than hitherto

We will continue to maintain a relentless focus on operational efficiency, quality and cost control The plan for this involves multi-skilling of key staff, strengthening quality control and the adoption of 'smart' manufacturing techniques

Depending on the extent and type of forecast demand, there may be the need to commit in the coming year to additional capital projects to satisfy that demand

The board has confidence that the prospects are good for the business to move forward significantly in the coming year

Finally, our thanks must go to our employees, customers and shareholders for their ongoing support as we look forward to further improvements in the year ahead

Robert Goddard
Chairman
07 December 2012

R Goddard

FINANCIAL REVIEW

Revenue for 2011/12 reached a record £2 91m, an increase of £0 97m, or nearly 50% over the prior year Although the second half was slightly down on the first, this was a reflection of the exceptionally strong revenues at the start of the year, rather than any underlying weakness in the second half

Encouragingly, the significant revenue increases were seen equally across all the Group's market sectors of oil and gas, flow control and advanced engineering, as well as geographically – revenue from North American customers increased by 56% year on year Growth came from a mix of existing products with existing customers and new products to existing and new customers Our pipeline delivered a number of new accounts during the year and the number of active customer application projects also increased, which augurs well for further conversions in 2012/13

In spite of the 49% increase in sales, costs of sales only increased by 12%, reflecting better utilisation of capacity and the relatively fixed nature of production salaries We were subject to some increases in raw material prices, principally gases However we did manage to avoid other increases or in some cases reduce costs by switching suppliers or bulk buying As a result, the overall gross profit margin increased from 62% to 72%

Group administrative costs rose by 9% to £1 57m, principally due to staff bonus and recruitment costs, although there was an underlying increase in marketing spend This will continue to increase in the current year The business development function was short-staffed for some of the year, however this was rectified in September and further investment in business development is also planned for this year

There was a small impairment of fixed assets in our mothballed Houston facility Overhead costs relating to the Houston facility have been reduced to the bare minimum required and are stable year-on-year at £106k Corporate central costs of £620k were reduced by £64k compared to prior year

The overall effect of markedly increased revenues on a relatively fixed cost base was a £718k upswing in Group operating profits from a loss of £340k to an operating profit of £378k A great deal of that operating profit improvement also fed through to cash, where cashflow from operating activity improved by £626k from an outflow of £177k in 2011 to an inflow of £449k in the year

The balance sheet was reinforced by the raising of £714k (net) from existing and new shareholders in November 2011 This, plus the sustained improvement in trading, has provided the confidence to invest further in sales and marketing, as well as the implementation of a longer-term plan for investment in additional plant and machinery Further resources will also be applied to enhance Hardide's product offering In spite of the turnover increase, working capital remained stable inventories increased by over a third but at £33k remained low, trade debtors increased by 41% from £347k to £490k but reduced in terms of average debtor days, trade creditors actually fell by 22% to £148k Net assets increased by over £1m

During the year we started work on an internal reorganisation to transfer patents and other intellectual property to Hardide plc Not only will this mean additional security for the IP, it will also provide a means to utilise more efficiently the Group's brought forward tax losses This work should be completed in the first half of 2012/13

Peter Davenport
Finance Director
07 December2012

THE BOARD OF DIRECTORS

Robert John Goddard (61)
Non-Executive Chairman

Robert Goddard joined the board as Non-Executive Chairman in January 2008 A chartered engineer, he was the Development Director of Burmah Castrol plc and had 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 its four speciality chemical subsidiaries More recently he has undertaken a variety of advisory and turnaround assignments In addition, he is Chairman of AIM quoted Universe Group plc and of New Trend Lifestyle plc, and also a Non-Executive Director of LZYE plc

Philip David Kirkham (59)
Chief Executive Officer

Philip Kirkham was appointed Chief Executive Officer in September 2012

Before joining Hardide, since 2008, Mr Kirkham held CEO positions at private equity backed Material Advantage Group Ltd which supplies machined metal components to the oil and gas industry, and at an industrial lighting company Previously, he held senior management positions with Firth Rixson Ltd and Rolls Royce plc Mr Kirkham is a chartered engineer and a European engineer (Eur Ing) with a BSc in Chemical Engineering and an MSc in Advanced Manufacturing Management He is a fellow of both the Institution of Mechanical Engineers and the Institution of Engineering and Technology

Peter Neil Davenport (46)
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 (51)
Technical Director

Yuri Zhuk is a co-founder of Hardide plc and is currently responsible for the company's technology, R&D, patenting, production improvement and applications development programmes Dr Zhuk started his career as a scientist and later became a technology entrepreneur gaining over 20 years of successful international technology business experience 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 UK Open University He is the author of several patents and scientific and technical publications, and has presented Hardide at leading international conferences

William Yale Zakroff (62)
Non-Executive Director

William Zakroff joined the board in June 2007 Based in Houston, Texas, he is a co-founder and Executive Director in several ventures including DeepDriver LLC and Smart OES LLC 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) which included the world's largest manufacturer of tungsten carbide and diamond materials used in oilfield and mining equipment

Bruce Charles Robinson (52)
Non-Executive Director

Bruce Robinson joined the board of Hardide plc in February 2011 He brings extensive experience of the international oil and gas industry, and growing technology-based businesses He spent his early career as an engineer with oil services firms GeoVANN Inc and Halliburton then as a founder shareholder and General Manager of Phoenix Petroleum Services, prior to its sale to Schlumberger He spent five years as a Director and Consultant to Scottish Enterprise Energy Group He has since started, run and assisted a wide range of innovative companies developing and exploiting technologies in various industry sectors

Andrew Richard Boyce (50)
Non-Executive Director

Andrew Boyce joined the board of Hardide plc in June 2012 Mr Boyce represents a family shareholding with a 26 5% interest in the Group's issued share capital the family having been an investor in the Group since 2003

Since 1987, Mr Boyce 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 of Agriculture and Estate Management from the Royal Agricultural College, Cirencester, he worked in commercial property sales and lettings, and development site appraisal and acquisitions

REPORT OF THE DIRECTORS

Principal Activity
The principal activity of the group is the provision of high-performance surface coatings to industry

Results
The group profit for the period, after taxation, amounted to £307,000 (2011 £381,000 loss)

Directors
The present membership of the Board is set out on pages 8-9, and changes to the board and the beneficial interests of the directors and their families in the shares of the company are shown below

	Appointed	Resigned	30 September 2012 Number of shares	30 September 2011 Number of shares
Robert Goddard	28 January 2008		3,468,333	3,468,333
Andrew Boyce	18 June 2012		-	-
Bruce Robinson	7 February 2011		-	-
William Zakroff	26 June 2007		1,691,667	1,691,667
Philip Kirkham	1 September 2012		-	-
Yuri Zhuk	14 March 2005		6,031,132	6,031,132
Peter Davenport	21 March 2006		3,126,667	2,226,667

Although Andrew Boyce holds no shares in his own name, he represents family and trust holdings totalling 254,046,226 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 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 certain directors are able to subscribe for ordinary shares in the company Details of the directors' interests in share options are shown in Note 17 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 21 November 2012 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	254,046,226	26 5
A Badenoch & Associates	248,550,000	25 9
Hargreave Hale Nominees Ltd	66,534,000	6 9
J M Finn Nominees Ltd	34,550,000	3 6
TD Direct Investing Nominees (Europe) Ltd	33,490,714	3 5
Ferlim Nominees Ltd	30,077,000	3 1

Payment policy and practice

It is the company's policy that payments to suppliers are made at the start of the second month following the date of invoice, unless other arrangements have been agreed At 30 September 2012 the group had an average of 55 days outstanding in trade creditors (2011 69 days)

R Goddard
Director
07 December 2012

RGoddard

CORPORATE GOVERNANCE

The Corporate Governance Code, September 2012 (the 'Code')

Though full compliance with the Code is not mandatory for Hardide, it is the policy of the board to adopt its principles and comply with its guidelines wherever practicable The small size of the Company and its current stage of development mean that it would not be sensible or possible to adhere to a number of the guidelines in the Code In addition to summarising its Corporate Governance procedures, the following statement also sets out some aspects of the Code with which the Company does not comply and explains why it does not or in some cases complies with the spirit of the Code by some other means

The Role of the Board

During the year, board meetings were held each month and each director attended every board meeting Mr Zakroff attended in person on four occasions and by video conference at other times

From time to time, *ad hoc* meetings of the board are called to deal with specific matters when such matters are better dealt with outside the regular monthly board meetings

There are four board Committees These are the combined *Remuneration and Nomination Committee*, the *Audit Committee*, the *Risk Committee* and the *Intellectual Property Committee* In the normal course, these Committees make recommendations to the board Minutes of Committee meetings are made available to the board as a whole but may be redacted at the discretion of the Chairman of the Committee, if necessary in consultation with the Company Chairman Where it is urgent that a recommendation of a Committee needs to be accepted by the board, this is done by a directors' resolution in writing

At regular monthly board meetings, the CEO reports on overall performance for the previous month and is supported on financial detail by the Finance Director The Technical Director reports on progress with development projects and technical aspects of customer and product issues Other business is conducted after these regular reports From time to time, a senior member of staff who is not a director is invited to present to the board on a specific topic

There is a formal schedule of matters reserved for the board This includes the setting of high-level targets, approval of budgets, strategy, capital expenditure, license agreements, incentive schemes and the like Authority levels for expenditure are delegated to individual executives or management committees according to a schedule agreed by the board

Whilst the bulk of the formulation of budgets and strategy is undertaken by the executive directors, this is done against a framework set by the whole of the board, challenged by the board and finally approved by it At certain points in the formulation of strategy, the board may convene and participate in the development of certain key aspects of strategy

The board reviews regularly both the financial position of the Group and information about non-financial performance It does this monthly at each board meeting Financial information includes monthly balance sheets and profit and loss accounts for the Group, Company and its subsidiaries, together with analysis of movements in cash, trade debtors and creditors, and fixed assets Close attention is also paid to the development of sales by sector and customer as well as progress with initiatives to develop major new sectors and customers

Non-financial information reviewed at least monthly by the board includes reports and key performance indicators, including plant performance, delivery performance, research and development activity, sales activity and health, safety and environmental performance

Non-executive directors

It is not thought that the Company is large enough to warrant the formal appointment of a senior non-executive director Instead, other non-executive directors are actively and regularly consulted by the Chairman and encouraged to provide feedback Similarly, the Chairman has regular contact with major shareholders and they are free to contact him outside those meetings, and do so The Chairman relays shareholder opinion to the non-executive directors or the full board, as appropriate

After the resignation, just before the prior year end, of the previous Chief Executive, his role was shared by Bruce Robinson and the Chairman who adopted the roles of Interim COO and Interim Executive Chairman, respectively The board considers that, given the temporary and now ceased nature of these roles and the close contact that is maintained with shareholders, the independence of these directors is not prejudiced

Open exchange among board members is part of the culture of the Company and by this means the Chairman is made aware of matters of substance and style that merit attention No formal mechanism exists for appraising the effectiveness of the board as a whole or of the Chairman alone The Remuneration and Nomination Committee has not recommended that such a process is implemented

Composition and effectiveness of the Board

Modest amounts are paid to Mr Zakroff's Houston-based company for the costs in dealing with administrative matters for the currently-dormant Houston subsidiary of Hardide Mr Zakroff also receives a travel allowance for his visits to Hardide in the UK Except for Mr Robinson and Mr Kirkham, each of the directors own ordinary shares in Hardide plc Each of Mr Kirkham, Mr Davenport, Dr Zhuk and Mr Goddard have been granted options on ordinary shares of Hardide plc, all as declared elsewhere in this report, except to the extent that they were awarded after the year end and in which case they have been covered by a statutory notice

By virtue of his substantial shareholding, Mr Andrew Boyce is not considered to be an independent director Each of the other three non-executive directors is considered by the board to be 'independent'

The board has again reviewed Mr Goddard's activities outside of Hardide and is satisfied that none of these conflict with his role as Chairman of Hardide

The terms and conditions for non-executive directors are agreed by the board They are available for inspection at the Company's registered office and at the location of the AGM for a period before that meeting begins

All directors may have access to independent professional advice at Company expense if this is felt by them in their own judgement that it is needed to enable them to discharge their duties and that the cost of such advice is reasonable in the circumstances

Collectively and individually, the directors monitor the performance of the board 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 & performance and the 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, the Chairman's frequent contact with other directors provides sufficient opportunity for frequent and effective two-way 'calibration'

Incentive schemes for staff and directors

In the past year there has been a bonus scheme in operation for executive directors and members of staff employed by the Company on or before 1st October 2011 and still employed by the Company at the Company's financial year end That bonus scheme was based on the achievement of certain levels of gross profit and cash, both being an improvement over the previous year The maximum bonus will be paid to staff in respect of the year to the end of September 2012

With regard to share options, most employees participate in a share option scheme after completing their probation period Except for the Chief Executive, the vesting criteria in place at the year end were that 30% of options granted are time-based and vest progressively over 3 years, 50% of options granted vest if the average market capitalisation of the Company reaches £15 million, and the remaining options vest if the average market capitalisation of the Company reaches £30 million The market capitalisation vesting conditions, if achieved, override the time-based vesting The Chief Executive's share options vest 50% after 2 ½ years and 50% after 5 years The Chairman's share options have slightly accelerated time-based vesting terms compared with others in the scheme This arrangement is in recognition of additional, otherwise-unremunerated work performed in fund raising during the course of 2009

None of the non-executive directors participate in the bonus scheme and Robert Goddard is the only non-executive director to participate in the share option scheme

Board Committees

The board has had four standing Committees of the board Current memberships of those Committees are

1. Audit Committee William Zakroff & Bruce Robinson
2. Remuneration and Nomination (R&N) Committee Andrew Boyce & William Zakroff
3. Risk Committee Robert Goddard, Phillip Kirkham & Peter Davenport
4. Intellectual Property (IP) Committee Yuri Zhuk, Robert Goddard & Philip Kirkham

In each case, the director whose name appears first above after the Committee name above is the Chairman of that Committee

Each committee has written terms of reference approved by the board These are kept under review and updated as needed

The Chairman is co-opted from time to time to sit on the R&N Committee and is also kept appraised of the work of the Audit Committee The R&N Committee convenes at least once per year and as the need arises The Audit Committee convenes at least twice a year The Risk Committee and the IP Committees are convened as needed but in any case at least once per year On no occasion in the past year has a member been absent from a Committee meeting

The membership and chair of board Committees is determined by the board but, given the small number of directors, refreshing membership on a regular or frequent basis is not viable

The main purposes and general terms of reference of each board Committee are set out below

<u>Remuneration and Nomination Committee</u>

- i Determine and agree with the board the framework or broad policy for the remuneration and contractual terms of the Company's Chief Executive, Chairman, the executive directors and such other members of the executive management as it is designated to consider
- ii Design or approve the design of, and determine targets for, any performance-related pay schemes operated by the Company and approve the total annual payments made under such schemes
- iii Review the design of all share incentive plans for approval by the board and shareholders For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to directors and other senior executives and the performance targets to be used
- iv Ensure that contractual terms on termination, and any payments made, are fair to the individual,

and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised

v Within the terms of the agreed policy and in consultation with the Chairman and/or Chief Executive as appropriate, determine the total individual remuneration package of each executive director and other senior executives who report to the Chief Executive, including bonuses, incentive payments and share options, other share awards or other benefits

vi Oversee any major changes in employee benefits structures throughout the Company or group

Audit Committee

The Audit Committee meets formally twice each year with the Company's auditor at appropriate times during the reporting and audit cycle, and otherwise as required The duties of the Audit Committee are to

i Monitor the integrity of the financial statements, including the annual and interim reports, review the consistency of accounting policies, review whether the Company has followed appropriate accounting standards and made appropriate estimates and judgments, review the methods used to account for significant or unusual transactions, review the clarity of disclosure in the Company's financial reports, and review all material information presented with the financial statements

ii Review the effectiveness of the Company's internal controls and risk management systems, and to review and approve the statements included in the annual report concerning these

iii Review the Company's arrangements for its employees to raise concerns about possible wrongdoing, and ensure these arrangements allow proportionate and independent investigation, and to review the Company's procedures for detecting and preventing bribery and fraud

iv Consider and make recommendations in relation to the appointment, re-appointment and removal of the Company's external auditor, oversee the relationship with the external auditor, meet regularly with the external auditor, review and approve the annual audit plan, review the findings of the audit with the external auditor, and review the effectiveness of the audit

Intellectual Property Committee

The IP Committee is charged with reviewing all matters relating to intellectual property, including patents, trademarks and so on It is also responsible for non-disclosure agreements and joint development agreements designed to protect and develop intellectual property The Committee makes recommendations to the board where the Committee does not have delegated powers The Committee sits as necessary and at least once each year

Risk Management Committee

The Risk Management Committee identifies the risks that the Company may be exposed to and recommends to the board how these may be avoided, mitigated or insured against, or some combination of these As in the previous reporting period, this Committee has met once in the year, which is fewer than was expected because a number of risk matters were dealt with at board level

Bribery Act, 2010 (the 'Act')

Before the Act came into force, the Group had in place a full "Anti-bribery Policy" and this has been augmented by a "Whistleblower's Policy" Under guidelines set by the board, a designated 'Group Compliance Officer' manages the processes and procedures that flow from the policies, in particular the areas perceived to represent most risk The Group Compliance Officer reports to the board as needed

Business Model and Strategy

The board retains its view that a major element of the improvement in value in the Company over the medium to long term will be realised by the creation of applications that are of exceptionally high value to customers and provide performance benefits over any competing products To this end, the Company will continue with a number of long-duration development programmes, including the replacement of chromiumplated components for the aerospace industry and the use of Hardide in high-performance cutting and abrasive tools

Experience shows that the large opportunities for new applications and new customers or sectors can take years to develop but that volumes and margins from these sources can be very attractive Now that the Company has a much stronger balance sheet and has enjoyed a steady cash flow from trading it will be making revenue investment in the coming year that will not bear fruit until future years The board has discussed this matter at some length and is firmly of the view that this is an appropriate way to add value for shareholders

Geographically, the Company's customers have been overwhelmingly in the UK but with an increasing proportion in the USA It stands to reason that there are numerous customers in other geographies for whom Hardide coatings would be attractive Accordingly, ways to boost overseas sales will be explored, particularly in Germany and in North America In the latter case, part of the consideration will be how and when to re-open the facility in Houston and how that operation can be used to increase market penetration

In parallel and in the shorter term, the focus is to boost revenue by leveraging both existing customer relationships and already-proven applications into new customers

The customer and sector diversification element of the Company's strategy remains in place and has shown some further success this year as sales to new customers have grown at a faster rate than to existing ones Greater diversification reduces the Company's exposure to fall back in demand from a large customer or market sector

A substantial part of the Company's value does and will lie in its intellectual property This means we will aim to better exploit our existing 'under-used' patents and explore the opportunity to register new patents for additional processes and applications

The strategy for future development of the business in its chosen sectors and the best mechanisms for marketing are currently under review and will be completed early in 2013

Business Reviews

The board reviews regularly both the financial position of the Group and information about non-financial performance It does this monthly at each board meeting Financial information includes monthly balance sheets and profit and loss accounts for the Group and its subsidiaries, together with analysis of movements in cash, trade debtors and 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 sectors and customers

Non-financial information reviewed regularly by the board includes reports and key performance indicators, including plant performance, delivery performance, research and development activity, sales activity and health, safety and environmental performance

On behalf of the board,
Robert Goddard
Chairman
07 December 2012

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 2012 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity 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 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

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 and express an opinion on 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 In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report

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 2012 and of the group's profit 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

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

Caroline Webster (Senior Statutory Auditor)
for and on behalf of
CRITCHLEYS LLP
STATUTORY AUDITOR
ABINGDON
07 December 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 September 2012

	Note	2012 £000	2011 £000
Revenue	2	**2,915**	**1,947**
Cost of sales		**(820)**	**(733)**
Gross profit		**2,095**	**1,214**
Administrative expenses		**(1,573)**	**(1,439)**
Depreciation and amortisation		**(108)**	**(115)**
Exceptional item Impairment of fixed assets		**(36)**	**-**
Operating profit / (loss)	3	**378**	**(340)**
Finance income	4	**2**	**-**
Finance costs	5	**(115)**	**(106)**
Profit / (loss) on ordinary activities before taxation		**265**	**(446)**
Taxation	7	**42**	**65**
Profit / (loss) on ordinary activities after taxation		**307**	**(381)**
Profit / (loss) per share Basic	8	**0 03p**	**(0 05)p**
Profit / (loss) per share Diluted	8	**0.02p**	**(0 03)p**

All operations are continuing

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 30 September 2012

	Note	2012 £000	2011 £000
Assets			
Non-current assets			
Goodwill	9	**69**	**69**
Intangible assets	10	**-**	**-**
Property, plant & equipment	11	**379**	**478**
Total non-current assets		**448**	**547**
Current assets			
Inventories	12	**33**	**24**
Trade and other receivables	12	**549**	**406**
Other current financial assets	12	**98**	**102**
Cash and cash equivalents	12	**1,405**	**292**
Total current assets		**2,085**	**824**
Total assets		**2,533**	**1,371**
Liabilities			
Current liabilities			
Trade and other payables	13	**480**	**370**
Financial liabilities	13	**257**	**-**
Total current liabilities		**737**	**370**
Net current assets		**1,348**	**454**
Non-current liabilities			
Financial liabilities	14	**673**	**895**
Total non-current liabilities		**673**	**895**
Total liabilities		**1,410**	**1,265**
Net assets		**1,123**	**106**
Equity attributable to equity holders of the parent			
Share capital	16	**2,666**	**2,541**
Share premium	16	**5,848**	**5,259**
Retained earnings		**(6,993)**	**(7,310)**
Share-based payments reserve		**240**	**248**
Translation reserve		**(638)**	**(632)**
Total equity		**1,123**	**106**

The financial statements were approved and authorised for issue by the Board on 07 December 2012

Robert Goddard
Director

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 September 2012

	2012 £000	2011 £000
Cash flows from operating activities		
Operating profit / (loss)	378	(340)
Depreciation	108	115
Impairment of fixed assets	36	-
Share option charge	1	5
Increase in inventories	(9)	2
Increase in receivables	(139)	(109)
Decrease in payables	110	112
Cash generated from operations	**485**	**(215)**
Finance income	2	-
Finance costs	(83)	(10)
Tax received / (paid)	45	48
Net cash generated from operating activities	**449**	**(177)**
Cash flows from investing activities		
Purchase of property, plant and equipment	(50)	(21)
Net cash used in investing activities	**(50)**	**(21)**
Cash flows from financing activities		
Net proceeds from issue of ordinary share capital	714	-
Finance lease repayment	-	(46)
Net cash generated by (used in) financing activities	**714**	**(46)**
Net increase / (decrease) in cash and cash equivalents	**1,113**	**(244)**
Cash and cash equivalents at the beginning of the year	**292**	**536**
Cash and cash equivalents at the end of the year	**1,405**	**292**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2012

	Share Capital	Share Premium	Share-based Payments	Foreign Translation	Retained Earnings	Total Equity
At 1 October 2010	**2,541**	**5,259**	**269**	**(629)**	**(6,955)**	**485**
Issue of new shares	-	-	-	-	-	-
Share options	-	-	(21)	-	26	5
Combined instruments	-	-	-	-	-	-
Exchange translation	-	-	-	(3)	-	(3)
Loss for the year	-	-	-	-	(381)	(381)
At 30 September 2011	**2,541**	**5,259**	**248**	**(632)**	**(7,310)**	**106**
At 1 October 2011	**2,541**	**5,259**	**248**	**(632)**	**(7,310)**	**106**
Issue of new shares	125	589	-	-	-	714
Share options	-	-	(8)	-	10	2
Combined instruments	-	-	-	-	-	-
Exchange translation	-	-	-	(6)	-	(6)
Profit for the year	-	-	-	-	307	307
At 30 September 2012	**2,666**	**5,848**	**240**	**(638)**	**(6,993)**	**1,123**

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)

Transition to 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
The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 Oct 2011 and have not been early adopted

- IFRS 9, Financial instruments – classification and measurement of financial assets, effective for accounting periods beginning on or after 1 January 2015
- IFRS 10, Consolidated Financial Statements, effective for accounting periods beginning on or after 1 January 2013
- IFRS 11, Joint arrangements, effective for accounting periods beginning on or after 1 January 2013
- IFRS 12, Disclosures of interests in other entities, effective for accounting periods beginning on or after 1 January 2013
- Amendment to IAS 12, Income taxes on deferred tax, effective for accounting periods beginning on or after 1 January 2012 These Financial Statements have been prepared in accordance with this amendment
- IFRS 13, Fair value measurement, effective for accounting periods beginning on or after 1 January 2013
- IAS 19 (revised 2011), Employee benefits, effective for accounting periods beginning on or after 1 January 2013
- IAS 27 (revised 2011), Separate Financial Statements, effective for accounting periods beginning on or after 1 January 2013
- IAS 28 (revised 2011), Investments in Associates and Joint Ventures, effective for accounting periods beginning on or after 1 January 2013
- Amendment to IFRS 1, First time adoption on government grants, effective for accounting periods beginning on or after 1 January 2013
- Amendments to IFRS 7, Financial instruments asset and liability offsetting, effective for accounting periods beginning on or after 1 January 2013
- Annual improvements 2011, effective for accounting periods beginning on or after 1 January 2013

Management will assess the impact on the Group of these standards prior to the effective date of implementation

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

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

Under IFRS8, operating segments are defined as a component of equity (a) that engages in business activities from which it may earn revenues and incur expenses (b) whose operating results are regularly reviewed and (c) for which discrete financial information is available The group management is organised in to UK and USA operation and Corporate central functions, and this factor identifies the group's reportable segments

Year ended 30 September 2012

	UK operation £000		US operation £000		Corporate £000		Eliminations £000		Total £000	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
External revenue	2,915	1,947	-	-	-	-	-	-	2,915	1,947
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-
Interest revenue	-	-	-	-	2	-	-	-	2	-
Interest expense	-	5	-	-	115	101	-	-	115	106
Depreciation	108	115	-	-	-	-	-	-	108	115
Impairment	-	-	36	-	-	-	-	-	36	-
Income tax income	-	-	-	-	42	66	-	-	42	66
Reportable segment profit / (loss)	1,069	409	(142)	(106)	(620)	(684)	-	-	307	(381)
Segment assets	2,385	1,263	158	183	1,421	1,217	(1431)	(1292)	2,533	1,371
Expenditure for non-current assets	47	21	-	-	-	-	-	-	47	21
Segment liabilities	347	236	5,140	5,202	1,473	1,229	(5550)	(5402)	1,410	1,265

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

External sales	UK £000	Europe £000	N America £000	Rest of World £000	Total £000
2012	2,284	44	581	6	2,915
2011	1,522	47	373	5	1,947

Two external customers (2011 – two) contributed more than 10% of the Group's continuing external sales for the year ended 30 September 2012 The external sales for these customers are £1 804 million and £0 332 million which have been recorded within the UK Operation reportable segment, excluding central costs

3 Operating profit or loss

This is stated after charging

		2012 £000	2011 £000
Auditor's remuneration			
fees payable to the company's current auditor for the audit of the company's accounts		12	9
Cost of inventory recognised as an expense		277	229
Research and development		173	93
Operating lease rentals	- plant and machinery	22	14
	- property	233	235
Share option expense		1	5
Exchange differences		(2)	(2)

4 Finance income

	2012	2011
	£000	£000
Interest on bank deposits	2	-

5 Finance costs

	2012	2011
	£000	£000
Interest on loans	80	71
Interest on finance leases	-	2
Finance charges on combined instruments	35	31
Other interest payable	-	2
	115	106

6 Employees

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

	2012	2011
	Number	Number
Technical	9	9
Production	9	10
Sales and marketing	3	4
Management and admin	3	4
	24	27

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

	2012	2011
	£000	£000
Wages and salaries	1,084	1,060
Social security costs	115	113
Share option expense	1	5
	1,200	1,178

The remuneration of directors during the year was as follows

		2012	2011
		£000	£000
Dr Graham Hine (Chief Executive)	Salary	-	106
	Car allowance	-	9
	Pay in lieu of holiday	-	4
	Pay in lieu of notice	-	60
Philip Kirkham (Chief Executive)	Salary	12	-
	Car allowance	1	-
	Relocation allowance	8	-
Dr Yuri Zhuk (Technical Director)	Salary	69	68
	Accrued Bonus	20	-
	Car allowance	9	9
Peter Davenport (Finance Director)	Salary	62	60
	Accrued Bonus	18	-
Robert Goddard (Non-Executive Chairman)	Salary	30	34
Robert Goddard (Executive Chairman)	Fees	30	6
Andrew Boyce (Non-Executive Director)	Salary	-	-
Bruce Robinson (Non-Executive Director)	Salary	16	10
Bruce Robinson (Interim COO)	Fees	91	15
Hugh Smith (Non-Executive Director)	Salary	-	7
William Zakroff (Non-Executive Director)	Fees	16	16
Total directors' remuneration		**382**	404

7 Taxation

	2012 £000	2011 £000
UK corporation tax on the profit / (loss) for the year	-	-
R&D tax credit	45	47
Adjustment in respect of prior year R&D tax credits	(3)	18
Adjustment in respect of prior year UK corporation tax	-	-
	42	**65**

The group has unutilised tax losses in the UK of approximately £4 4m (2011 £4 7m) The deferred tax asset has not been recognised as there is uncertainty regarding the time period over which it would be recovered in the future

8 Earnings per ordinary share

	2012 £000	2011 £000
Profit / (Loss) on ordinary activities after tax	307	(381)
Basic earnings per ordinary share		
Weighted average number of ordinary shares in issue	940,258,085	834,042,238
Earnings per share	0 03p	(0 05)p
Fully diluted earnings per ordinary share		
Number of ordinary shares in issue	959,042,238	834,042,238
Outstanding share options	81,498,500	75,424,835
Convertible loans	190,666,666	190,666,666
Total	1,231,207,404	1,100,133,739
Earnings per share	0 02p	(0 03)p

9 Goodwill

	£000
Cost at 1 October 2011 and 30 September 2012	69
Net book value at 1 October 2011 and 30 September 2012	69

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

10 Intangible assets

	£000
Cost at 1 October 2011 and 30 September 2012	9
Net book value at 1 October 2011	0
Impairment charge	0
Net book value at 30 September 2012	0

11 Property, plant and equipment

	Leasehold buildings £000	Plant, vehicles and fixtures £000	Computer equipment £000	Total £000
Cost at 1 October 2011	225	2,933	174	**3,332**
Additions	-	42	8	50
Disposals	-	(283)	(6)	(289)
Exchange differences	(1)	(34)	(2)	(37)
Cost at 30 September 2012	**224**	**2,658**	**174**	**3,056**
Depreciation at 1 October 2011	180	2,505	169	**2,854**
Provided in the year	17	87	4	108
Disposals	-	(283)	(6)	(289)
Impairment	3	33	-	36
Exchange differences	-	(30)	(2)	(32)
Depreciation at 30 September 2012	200	2,312	165	**2,677**
Net book value at 1 October 2011	45	428	5	478
Net book value at 30 September 2012	**24**	**346**	**9**	**379**

12 Current assets

Inventories	2012 £000	2011 £000
Raw materials and consumables	33	24
	33	24

Trade and other receivables	2012 £000	2011 £000
Trade receivables	490	347
Other receivables	59	59
	549	406

Other current financial assets	2012 £000	2011 £000
Prepayments	53	54
Accrued income	45	48
	98	102

Cash and cash equivalents	2012 £000	2011 £000
Sterling	1,348	260
US Dollar	57	32
	1,405	**292**

13 Current liabilities

Trade and other payables	2012 £000	2011 £000
Trade payables	148	189
Taxation and social security costs	112	102
Accruals	220	79
Loans	257	-
	737	370

14 Non-current other financial liabilities

	2012	2011
	£000	£000
Loans	668	890
Lease deposit	5	5
	673	**895**

The loans are denominated in sterling, the lease deposit in US dollars The amount shown above as loans 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

Total amount repayable	2012	2011
	£000	£000
In one year or less	262	-
In more than one but not more than two years	734	262
In more than two but not more than five years	-	734
	996	**996**

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%

The terms of the £225,000 loan notes due June 2013 were varied under a deed of variation dated 5th August 2009, under which interest due on the principal between July 2009 and July 2011 is not paid on its due date but is rolled up and interest is payable on both the principal and the rolled up interest from July 2011

The terms of the £633,000 loan notes due August 2014 are such that interest due on the principal up to August 2011 is not paid on its due date but is rolled up and interest is payable on both the principal and the rolled up interest from August 2011

The rolled up interest referred to above is treated as a long-term liability and added to the loan amount

15 Total commitments under operating leases

	Land and buildings		Plant	
	2012	2011	2012	2011
	£000	£000	£000	£000
In one year or less	26	-	3	-
In two to five years	656	914	35	20
In more than five years	-	-	-	-
	682	914	**38**	20

On 13 November 2012 Hardide Coatings Ltd extended the lease on part of its Bicester premise from May 2013 until October 2016 to align with the lease term on the other part of the premise

The total future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date amount to $102,000 This is in respect of the sublease of part of Hardide's Houston facility

16 Share capital

	2012		2011	
	Number 000	Value £000	Number 000	Value £000
Authorised ordinary shares of 1p each	-	-	-	-
Allotted ordinary shares of 1p each	-	-	-	-
Authorised ordinary shares of 0 1p each	1,750,000	1,750	1,750,000	1,750
Authorised deferred shares of 0 9p each	250,000	2,250	250,000	2,250
Allotted ordinary shares of 0 1p each	959,042	959	834,042	834
Allotted deferred shares of 0 9p each	189,642	1,707	189,642	1,707

On 18 November 2011, the company issued 125,000,000 ordinary 0 1p shares via a placing to existing and new shareholders, at a price of 0 6p per share, raising £750,000 before expenses

All shares are fully paid

17 Share-based payment

	Number	Weighted average exercise price
Outstanding at 1 October 2011	75,424,834	0 47p
Exercisable at 1 October 2011	26,689,934	0 45p
Granted during year	20,130,000	0 81p
Forfeited during year	(14,056,334)	0 45p
Outstanding at 30 September 2012	81,498,500	0 55p
Exercisable at 30 September 2012	21,704,200	0 46p

The current directors' interests in share options are as follows

	Number	Weighted average exercise price
Robert Goddard (Chairman)	6,681,000	0 45p
Philip Kirkham (Chief Executive)	20,000,000	0 81p
Yuri Zhuk (Technical Director)	8,351,000	0 45p
Peter Davenport (Finance Director)	8,351,000	0 45p

Since the year end, further options have been awarded to Robert Goddard (3,500,000 at an exercise price of 0 6p), Yuri Zhuk and Peter Davenport (500,000 each at an exercise price of 0 86p)

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

18 Post balance sheet events

There are no post balance sheet events to report

19 Related party transactions

Hardide Coatings Inc spent $2,410 (2011 $2,415) with Zakroff Group LP 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 Group LP

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 2012 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 2012

Prepared in accordance with UK Generally Accepted Accounting Policies

	Note	2012 £000	2011 £000
Assets			
Non-current assets			
Investments	3	**1,100**	**1,100**
Amounts owed by group undertakings	4	**5,135**	**5,185**
Provision	4	**(5,135)**	**(5,185)**
Total non-current assets		**1,100**	**1,100**
Current assets			
Trade and other receivables	5	**53**	**54**
Cash and cash equivalents		**268**	**63**
Total current assets		**321**	**117**
Total assets		**1,421**	**1,217**
Liabilities			
Current liabilities			
Trade and other payables	6	**547**	**339**
Financial liabilities	7	**257**	
Total current liabilities		**804**	**339**
Net current (liabilities) / assets		**(483)**	**(222)**
Non-current liabilities			
Financial liabilities	7	**668**	**890**
Total non-current liabilities		**668**	**890**
Total liabilities		**1,472**	**1,229**
Net (liabilities) / assets		**(51)**	**(12)**
Equity			
Share capital	8	**2,666**	**2,541**
Share premium	9	**5,848**	**5,259**
Retained earnings	9	**(8,793)**	**(8,048)**
Share-based payments reserve	9	**228**	**236**
Total equity		**(51)**	**(12)**

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 £753,000 (2011 loss of £808,000) after accounting for a decrease in the provision against the intercompany loan of £50k and an exchange rate loss on intercompany loan of £184k

The accompanying notes form an integral part of these financial statements

The financial statements were approved and authorised for issue by the Board on 07 December 2012

Robert Goddard
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

	2012 Number	2011 Number
Management and admin	1	2
Sales and marketing	1	1
Technical	4	5

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

	2012 £000	2011 £000
Wages and salaries	405	459
Social security costs	44	46
Share option expense	-	-
	449	**505**

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

3 Investments

	£000
Investments in subsidiaries at 1 October 2011 and 30 September 2012	1,100

At 30 September 2012 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 £5,135,000 (2011 £5,185,000) 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 The reduction in debt during the year of £50,000 has been credited to the profit and loss account in the year

5 Trade and other receivables

	2012 £000	2011 £000
Prepayments and accrued income	8	7
Taxation recoverable	45	47
Other debtors	-	-
	53	**54**

6 Trade and other payables

	2012	2011
	£000	£000
Trade creditors	34	49
Social security and other taxes	6	8
Amounts owed to group undertakings	415	217
Accruals and deferred income	92	65
	547	339

7 Financial liabilities

	2012	2011
	£000	£000
Loans	925	890
Loans are repayable as follows		
In one year or less	257	-
In more than one but not more than two years	668	252
In more than two but not more than five years	-	638

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

	2012	2011
	£000	£000
In one year or less	262	-
In more than one but not more than two years	734	262
In more than two but not more than five years	-	734

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

8 Share capital

	2012		2011	
	Number	Value	Number	Value
	000	£000	000	£000
Authorised ordinary shares of 0 1p each	1,750,000	1,750	1,750,000	1,750
Authorised deferred shares of 0 9p each	250,000	2,250	250,000	2,250
Allotted ordinary shares of 0 1p each	959,042	959	834,042	834
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 16 to the group financial statements

9 Reserves

	Share Capital	Share Premium	Other Reserve	Retained Earnings	Total Equity
At 1 October 2011	**2,541**	**5,259**	**236**	**(8,048)**	**(12)**
Issue of new shares	125	589	-	-	714
Share options	-	-	(8)	8	-
Combined instruments	-	-	-	-	-
Exchange rate difference on intercompany loan	-	-	-	(184)	(184)
Retained loss for the year	-	-	-	(569)	(569)
At 30 September 2012	**2,666**	**5,848**	**228**	**(8,793)**	**(51)**

Details of the movement in reserves can be found in the consolidated statement of changes in equity in the group financial statements

10 Capital commitments

The company has no capital commitments at 30 September 2012 or 30 September 2011

11 Contingent liabilities

There were no contingent liabilities at 30 September 2012 or 30 September 2011

12 Related party transactions

Hardide Coatings Inc spent $2,410 (2011 $2,415) with Zakroff Group LP 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 Group LP

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 2011	57,156,834	0 45p
Exercisable at 1 October 2011	25,430,234	0 45p
Granted during year	20,000,000	0 81p
Forfeited during year	(8,333,334)	0 45p
Outstanding at 30 September 2012	68,823,500	0 55p
Exercisable at 30 September 2012	19,757,100	0 45p

The current directors' interests in share options are as follows

	Number	Weighted average exercise price
Robert Goddard (Chairman)	6,681,000	0 45p
Philip Kirkham (Chief Executive)	20,000,000	0 81p
Yuri Zhuk (Technical Director)	8,351,000	0 45p
Peter Davenport (Finance Director)	8,351,000	0 45p

Since the year end, further options have been awarded to Robert Goddard (3,500,000 at an exercise price of 0 6p), Yuri Zhuk and Peter Davenport (500,000 each at an exercise price of 0 86p)

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