

Hardide plc

Financial Statements

For the year ended 30 September 2023

Hardide plc is a public limited company domiciled in the UK and incorporated in England & Wales with Registered Number 05344714.

The address of the Registered Office and principal place of business is
9 Longlands Road, Bicester, Oxfordshire OX26 5AH, United Kingdom.

INDEX	PAGE
STRATEGIC REPORT	
Highlights	1
Chair's and CEO's Report	6
Financial Review	11
Risk Review	14
CORPORATE GOVERNANCE	
Board of Directors	16
Report of the Directors	19
Corporate Governance Statement	23
Remuneration and Nomination Committee Report	30
Audit Committee Report	33
Environmental, Social and Governance	35
FINANCIAL STATEMENTS	
Independent Auditor's Report	38
Consolidated Statement of Comprehensive Income	45
Consolidated Statement of Financial Position	46
Consolidated Statement of Cash Flows	47
Consolidated Statement of Changes in Equity	48
Notes to the Financial Statements and Principal Accounting Policies	49
Parent Company Statement of Financial Position	66
Parent Company Statement of Changes in Equity	67
Notes to the Parent Company Financial Statements and Principal Accounting Policies	67

HARDIDE PLC – ANNUAL REPORT 2023

HIGHLIGHTS

Strategy

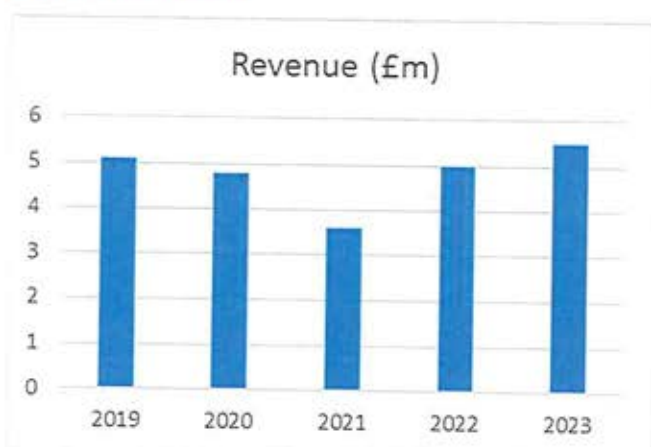
A two-step strategy:

1. Focus on becoming profitable and cash generative as soon as possible driven by increased sales to existing and new customers, utilising proven coating technology and existing production capacity.
2. Drive significant value for shareholders and other stakeholders over the medium to longer term through further development and commercialisation of the Group's unique, high performance coatings technology, including co-operation with other coatings companies.

Investment case

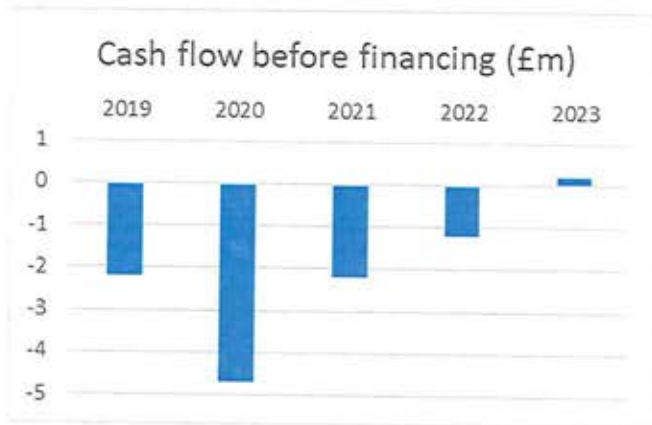
1. *A well invested business providing a strong platform for growth*
 - Valuable, unique and patented coatings technology
 - Broad range of end use applications
 - Significant spare capacity in 2 plants (UK and USA) each only c.60% utilised
2. *A pivotal time*
 - Fresh leadership driving focus on acceleration in revenue growth, combined with strong cost and cash control
 - Cultural evolution – from engineering led to commercially led
 - FY to Sept 23: Record revenues of £5.5m; close to EBITDA¹ break-even; operating cash positive for the first time
3. *Significant business development and value creation potential*
 - Shorter to medium term opportunities in oil and gas, aerospace, and industrial applications
 - Medium / longer term opportunities in power generation, alternative energy, green hydrogen production and storage, solar cell production: some potentially transformational
 - High operational gearing and contribution margins, with significant profit and cash drop through from additional revenues

5-year track record

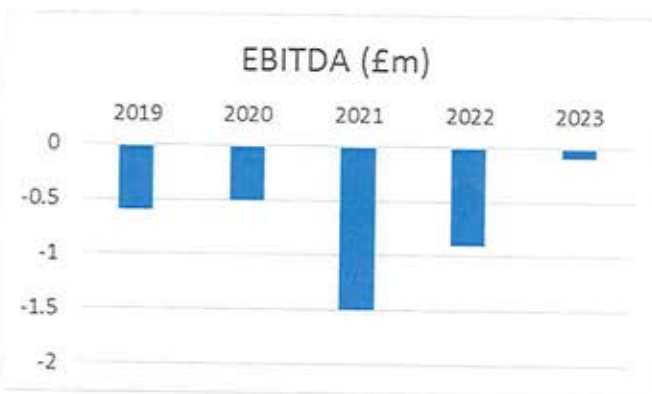


¹ EBITDA: Earnings before interest, tax, depreciation and amortisation

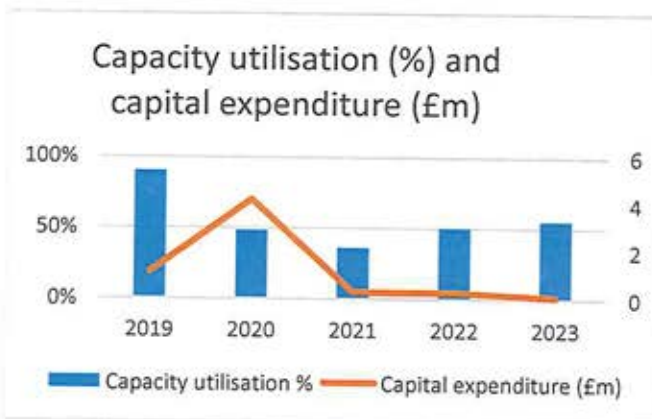
Record revenues in FY23



The business was cash flow positive for the first time in FY23



A close to EBITDA break-even performance in FY23, a significant improvement on prior years



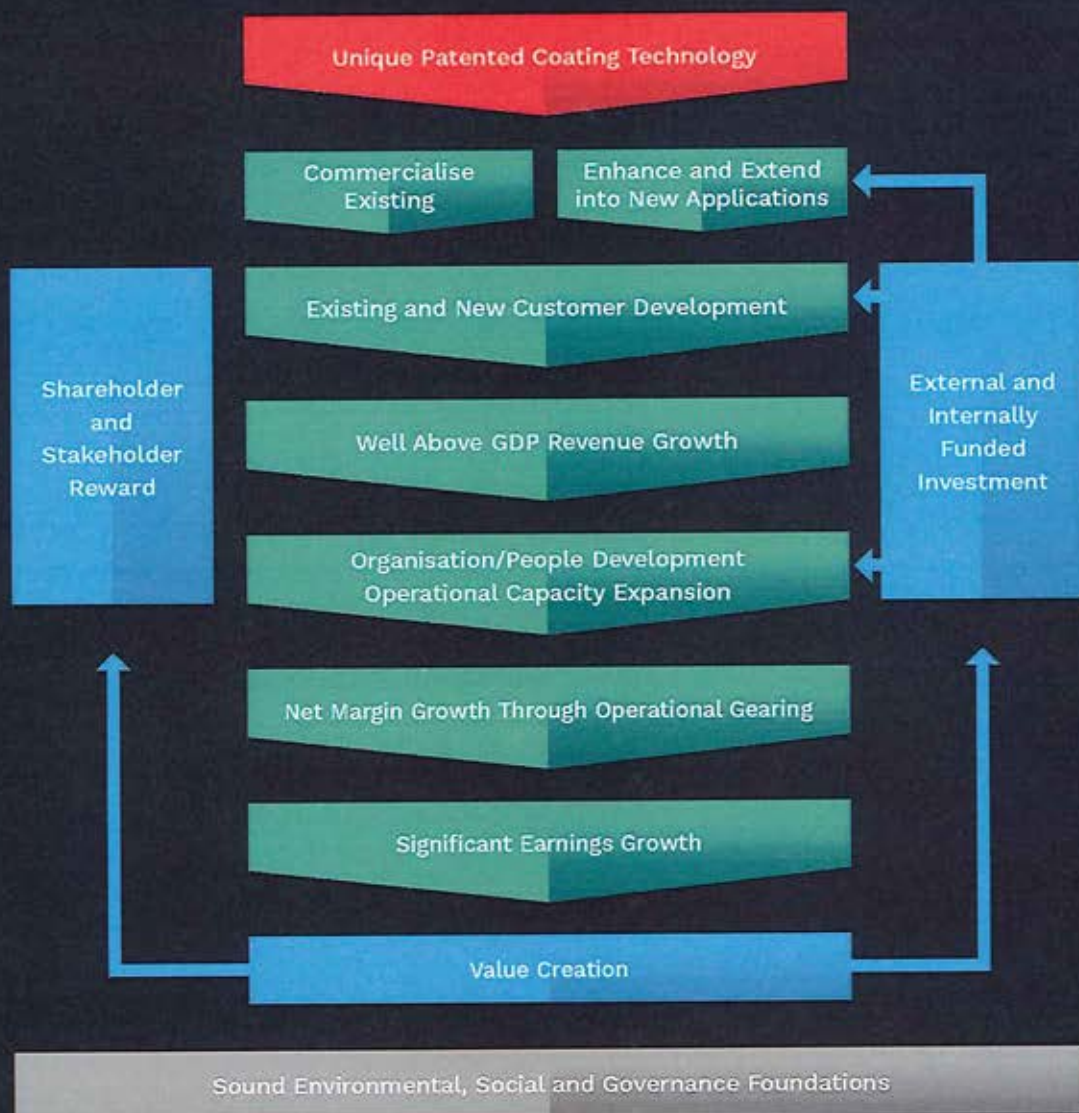
A well invested business with spare capacity

Business and commercial highlights

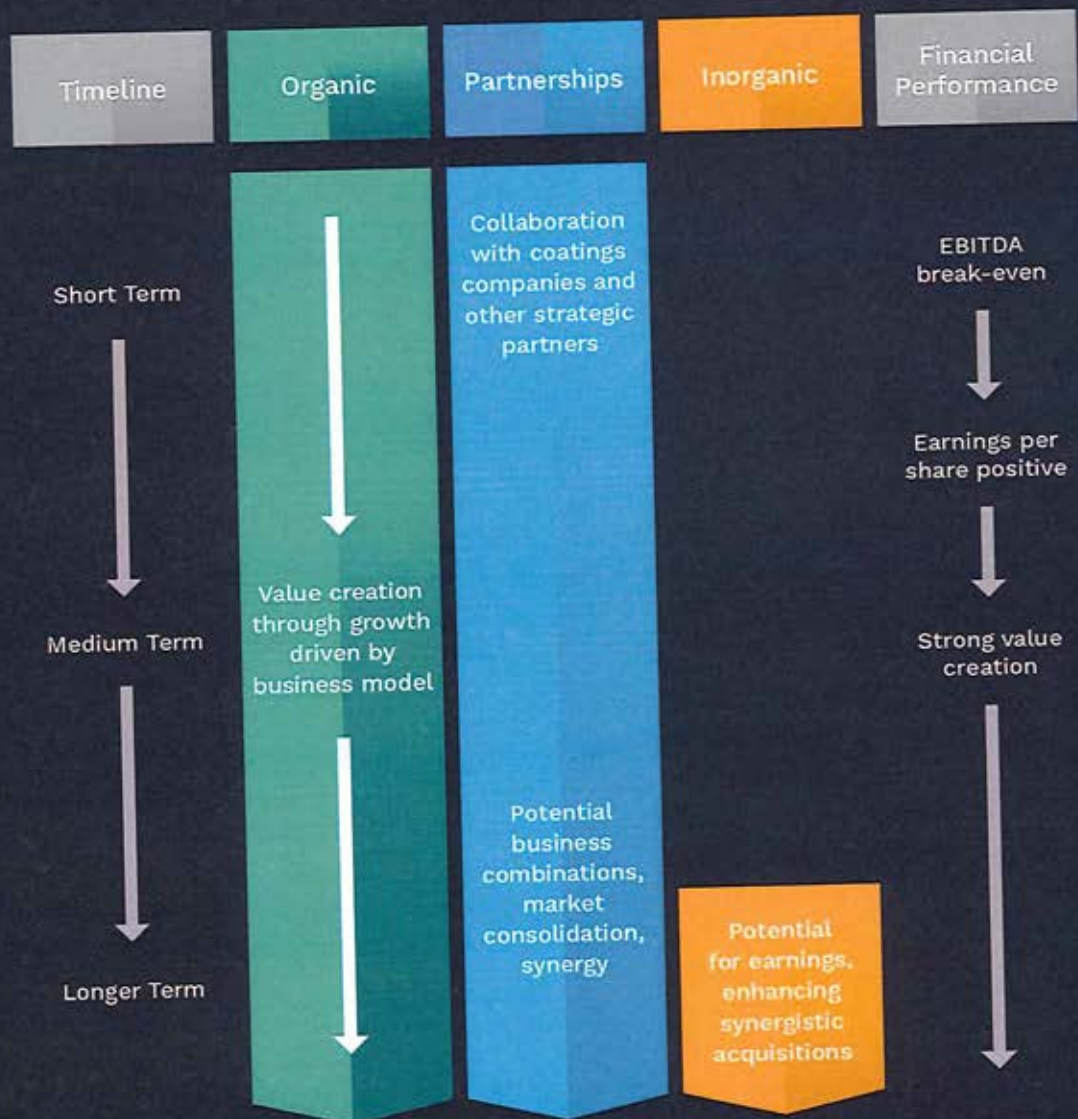
- Significant ongoing growth in commercial aerospace business
- Developing new industrial / engineering customers following recent trials
- Strong core oil & gas business with ongoing niche development potential
- Early success and promising future for coating turbine blades in the power generation sector
- Strategic potential in green energy, hydrogen production and hydrogen storage applications
- Patentable technical developments ongoing to enhance Hardide coatings and broaden their end use applications, supported by grant funding

- Strong cost, cash flow and inflation management disciplines demonstrated, with an EBITDA and cash benefit of c.£0.7m realised during FY23
- Commercial relationships developing with global coatings companies to broaden market reach
- More challenging trading conditions experienced in the first part of FY24
- c.£0.75m of additional equity funding expected to be raised in February 2024 to support Hardide's growth agenda and provide additional working capital headroom, with c.£0.25m of further debt funding being sought.
- A new interim CEO, Steve Paul, formerly of Praxair Surface Technologies, joined on 12 February 2024.

Hardide Business Model



Hardide Strategy



CHAIR'S STATEMENT

Overview

I am pleased to report another year of good progress for Hardide, with revenues moving ahead by 10% to £5.5m and the delivery of a close to EBITDA² break-even profit performance.

The Board is focused on driving an acceleration in revenue growth, as adoption of Hardide's unique coating technology gains further traction across a diverse range of end use market applications.

Strategy

The Board is executing a two-stage strategy:

1. Focus on becoming profitable and cash generative as soon as possible. This will be driven mainly by increased sales to existing and new customers, utilising proven coating technology and existing production capacity, thereby benefiting from Hardide's strong operational gearing.

We made good progress in FY23 in growing revenues and recovering input cost inflation, whilst keeping tight control of costs to deliver a close to EBITDA break-even profit performance.

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

We entered into commercial agreements with two global coatings companies during the last year enabling all parties involved to benefit from the ability to offer Hardide's coatings to a broader international customer base.

Business Development

The Board is focused on the realisation of numerous business development opportunities available in the short to medium term across various end market sectors. In addition, our research and development activities (much of which are supported by grant funding) are intended to significantly enhance Hardide's coatings technology and its applications, and much of our focus here is on green energy and in assisting hydrogen generation and storage. Further details of these opportunities are given in the Chief Executive's Report.

People and Board

On behalf of the Board I'd like to put on record our thanks to all our loyal and committed employees for their hard work and achievements, not least driving the continued growth of the business to record levels in FY23 in line with our strategic objectives against a challenging market backdrop.

We were pleased to welcome Steve Paul as Interim Chief Executive Officer on 12 February 2024. He will succeed Phil Kirkham who announced his intention to step down last November. Steve, formerly of Praxair Surface Technologies, will bring a wealth of experience in general management, commercial development and performance improvement. We look forward to working with Steve and to his contribution both to the business and the Board.

The Board would like to thank Phil once again for the immense contribution he has made to the development of Hardide over the last decade, including significantly broadening the customer base and leading the establishment of our two modern and well invested production facilities, all of which provide us with an excellent platform for future growth.

We also welcomed Matt Hamblin to the Board in November. Matt is the ex-CEO of Keronite, a coatings company with many similarities to Hardide, where he led its growth into profitability and then its successful sale to a large global organisation last year. Matt's insights have already been highly valuable as we evolve and refine our growth strategy.

² EBITDA: Earnings before interest, tax, depreciation and amortisation

These Board changes provide the opportunity to evolve the leadership and culture of the business to become more sales focused and commercially driven, and better aligned with the Board's determination to drive an acceleration in revenue growth.

Current Trading and Financing

Hardide has experienced a slower than expected start to the current financial year with a number of major OEM customers de-stocking. This de-stocking effect has more than offset the positive ongoing growth in aerospace demand. The cost base has been re-aligned in mitigation, and selling prices were increased in January 2024. Group revenues in the four months to 31 January 2024 were £1.3m compared with £1.9m in the equivalent prior year period.

The Board announced in early February that it was seeking £1m of additional funding through a combination of equity and debt and now expects that c.£0.75m of equity will be raised.

In light of this additional funding, the Board has prepared the financial statements on a going concern basis, as it expects the Group to have sufficient financial resources to continue in operation for the foreseeable future. The Financial Review includes a sensitivity analysis that outlines possible future downside scenarios in which the Group might require further funding. The Group continues to seek a further £0.25m of debt finance to increase headroom.

The Board's expectation remains that revenues for the full financial year to September 2024 will be broadly in line with those of the year to September 2023, with the benefits of a disciplined approach to costs coming through such that we anticipate being EBITDA positive for the year.

Outlook

Whilst the global economic situation remains uncertain and this has impacted trading in the first part of the new financial year, Hardide is still a relatively early life cycle business benefiting from unique and potentially disruptive technology. This technology is steadily gaining market acceptance and market share, enabling the underlying business to continue to grow.

There are numerous business development opportunities being pursued, detailed in the Chief Executive Officer's Report. We are focused on bringing these to fruition, with sales to the aerospace sector in particular growing significantly in the current financial year.

The Board therefore continues to believe that the Group has the potential to generate significant value for shareholders and all stakeholders over the medium to longer term.

Andrew Magson
Non-Executive Chair
21 February 2024

CHIEF EXECUTIVE OFFICER'S REPORT

Overview

Hardide generated record revenues for the year of £5.5m, an increase of 10% from FY22. Revenue growth was led by a 21% increase from the energy sector, particularly from oil and gas customers. However, this increase was tempered by the absence during the year of any repeat orders for the coating of gas turbine blades and vanes. Volume aerospace orders for Airbus components commenced in the final quarter of the year with a 100% increase in sales from this sector for the year to become 7% of total revenues. Price increases were implemented across the customer base during the year to recover cost inflation, particularly raw materials, energy and people costs.

The combination of price increases, revenue growth and cost reductions led to a significant improvement in gross margins, which rose by ten percentage points to 47.5% from 37.5% in the prior year. This enabled us to deliver a close to break-even EBITDA performance, compared with the prior year equivalent of a £0.9m EBITDA loss.

Operational Overview

Customers and Markets

The mix of revenue from our main market segments during the year was:

- Energy: 63% (including oil & gas and power generation)
- Industrial: 30%
- Aerospace: 7%

Energy

Sales to energy customers increased by 21% to £3.4m during FY23, including a 48% increase in sales to oil & gas customers assisted by sales of coated mesh sand screens. This was offset by a reduction of £0.5m in power generation sales compared to FY22, as previously expected orders for the coating of gas turbine blades were delayed due to engineering modifications of the turbine.

Further progress has been made in diversifying the oil & gas customer base with sales spread across a broadening number of customers and with not one dominating this segment's revenue. Towards the end of FY23, the Group started to experience some softening in demand from oil and gas customers, and this has impacted the first few months of FY24. We believe this reflects reassessment of inventory levels by customers as global supply chains normalise post the COVID pandemic; a reduction in the number of active US land drilling rigs; and the full cessation of supplies to Russia to comply with US and international sanctions.

The large oil service companies continue to talk about the industry being at the start of a long-term 'up cycle' for oil and gas exploration and production. With the oil price climbing recently on the back of OPEC+ production cuts and international events, the medium-term future looks positive for supplying to this sector.

Alternative Energy

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

Following the initial testing of several Hardide coating variants at Cranfield University for a process for the manufacture of 'green' hydrogen, the Group was successful in being awarded an Innovate UK grant to progress further this work. This project commenced in November 2023 and is to be completed within 17 months. The initial test results and further details are confidential to maintain potential patentability of the application.

In another hydrogen application, an independent laboratory is currently testing the permeability of the Hardide coating to provide quantitative data on how good a barrier the coating is in preventing hydrogen from diffusing into metal components and causing cracks. Subject to positive results, this would open up a large range of opportunities for Hardide coatings in hydrogen storage and distribution applications.

Power Generation

The expected production orders for the coating of gas turbine compressor blades from Ansaldo Energia in Italy were not received in the financial year as engineering modifications are in progress on the turbine itself. In parallel, the first two turbines containing Hardide coated blades are in the final stages of commissioning and the performance data of these blades is being gathered. This data will undoubtedly be a factor in proving the benefit of the Hardide coating and in gaining future business. Testing is also underway with this customer on new applications / materials for a different turbine.

The work with EDF Energy on use of the coating on steam turbine blades to prevent water droplet erosion has not progressed during the year due to other priorities within the EDF engineering team. It is hoped that this work will be restarted during the coming 12 months. Extensive technical work and testing has been done by another global steam and gas turbine manufacturer with positive results. Discussions are now underway regarding potential applications.

Currently, the Group is working on developments and trials with other global steam and gas power generation turbine manufacturers, both in the UK and overseas.

Industrial

Revenues decreased in this sector by 15% from FY22. This was due to 22% lower sales to our major industrial pump customer in North America who returned to a usual level of demand following re-stocking after high sales during the COVID pandemic period. However, there was an increase in revenue from the airport X-ray scanner manufacturer as their production increased. In addition, developments and trials are still underway with the large US-based EV manufacturer on components used in the vehicle battery production process. Trials and testing are also ongoing on new battery technology and fuel cell applications with a major organisation in the Far East.

Aerospace

Aerospace sales doubled during FY23 to 7% of total Group revenue, with regular volume demand commencing in the last quarter of the year from Gardner Aerospace to coat components for the Airbus A320/A321 aircraft. This level of demand is based on Airbus' current production rate of c.50 A320/A321 being produced per month. Airbus' plan is to gradually increase this rate to 65 aircraft per month by end 2024 and to 75 by 2026 indicating that demand on the Group will also increase. Additionally, orders were received from other Tier 1 companies for the lower volume A330, A380 and A400M applications. Airbus and their Tier 1 suppliers continue to gain confidence in the Group to provide a quality coating together with excellent levels of service, and as a result there are further parts currently in development and testing.

Orders continue to be received for the coating of BAE Eurofighter Typhoon components. In addition, an increase in demand for parts for Lockheed Martin's F35 Lightning II fighter was seen in FY23. Technical trials are now underway with a major civil and military helicopter manufacturer in the US. We continue to work with several other OEMs and maintenance, repair and overhaul ("MRO") companies for applications including landing gear, door mechanisms and peripheral engine components.

During the year the Group received full supplier approval from Leonardo Helicopters ("Leonardo") to coat flying parts. Production orders are for components used in helicopter gearbox transmission systems and are part of an existing engine upgrade. The Hardide coating will reduce 'in-service' costs and extend component life. Leonardo is one of the UK's leading aerospace companies and one of the biggest suppliers of defence and security equipment to the UK Ministry of Defence. This approval is expected to open other opportunities within the wider Leonardo Group and the broader helicopter market.

Technical discussions on replacing chrome plating on components are also underway with another major aircraft manufacturer based in the US.

Hardide coatings are being used increasingly as a substitute for hard chrome plating ("HCP") and thermal spray coatings. The EU and UK Reach regulations currently have an end date of April 2024 for the use of the toxic hexavalent chromium chemicals used in the production of HCP. As this date rapidly approaches many companies are turning to Hardide coatings as a replacement. Thermal spray coatings are less corrosion resistant and more prone to cracking under deformation than are Hardide coatings.

Health & Safety

I am pleased to report that there were zero lost time incidents across the Group during the year. Regular audits and inspections are performed by external bodies at both sites and continuous improvements are being made because of these.

Accreditations and Research & Development

Hardide's UK site is accredited to Nadcap Gold Merit status, the highest accreditation available for commitment to continual improvement in aerospace quality. Both the UK and the US sites are accredited to aerospace quality standard AS9100 RevD and to ISO9001. The UK site is certified to environmental standard ISO14001, while the US site complies with all local, state and federal environmental standards.

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

Intellectual Property

Our most recent patent covers the enhanced Hardide coating with improved mechanical properties and its new applications, including turbine blades and vanes. This had been previously granted in the UK and this year we received new grants of the patent in the USA, China, India and South Korea. Registration of the equivalent patent is progressing in other leading industrial countries.

Business Development

We are focused on realising a number of shorter-term business development opportunities to grow revenues to a level where the business becomes cash positive and fully profitable for the first time.

Hardide is a well invested business with operational capacity for sales of around £10-11 million a year, approximately double FY23's revenues. With this spare capacity available and high operational gearing such that a high proportion of incremental revenues convert into profit and cash, we estimate that Hardide will become cash generative at revenues of c.£6.2m and fully profitable / earnings per share positive at revenues of c.£7.5m.

The principal shorter-term business development opportunities being progressed are:

- Additional Airbus parts
- High volume consumable components for thermal spray equipment
- Steam and gas turbine blades and vanes
- Couplers for land-based oil production pumps

Technical and commercial collaboration is well underway with various international coating companies who have complementary ranges of coatings with the aim of enhancing the range of materials and components to which our coating be applied, as well as approaching the market with joint solutions for difficult industrial applications.

Current Financial Year Trading

Having managed the business to a broadly EBITDA and stable cash flow position in FY23, trading in the first four months of the current financial year has been impacted by some of our major customers de-stocking. So far, this has more than offset the continuing strong growth in our aerospace business that began in the final quarter of FY23. Group revenues in the four months to 31 January 2024 were £1.3m compared with £1.9m in the equivalent prior year period. We have taken action to reduce costs and improve cash flows accordingly. In addition, selling prices were increased by an average of 5% in January 2024.

After discussing anticipated forward order schedules with major customers and updating our forecasts, including building in the impact of the recent cost reductions and selling price increases, the Board believes that revenues for the year to 30 September 2024 will be broadly in line with the previous financial year. In view of the reduced cost base this should enable the Group to deliver a positive EBITDA performance for the year.

Philip Kirkham

Director and CEO until 11 February 2024
21 February 2024

FINANCIAL REVIEW

Income Statement

Hardide grew during FY23 to report record revenues of £5.5m (FY22 £5.0m), an increase of 10% year on year.

We were successful in recovering significant input cost inflation (in particular process gas, energy and people costs) into selling prices during the year. This, combined with strong cost controls and increased capacity utilisation which allowed better recovery of factory fixed costs, led to a 10 percentage point uplift in gross profit margins to 47.5% (FY22: 37.5%).

Overheads of £2.9m were well controlled and were held to similar levels as in the prior year, despite the growth in the business and cost inflationary pressures.

Overall, this enabled Hardide to significantly reduce its EBITDA loss from £0.9m in the prior year to just £0.1m in FY24.

Total depreciation charges of £0.9m were some £0.3m lower than in the prior financial year, mainly because Hardide is a well invested business with spare capacity with depreciation comfortably exceeding capital investment during the year. This position is expected to continue for the foreseeable future. In addition, we reviewed the useful lives of some of our reactors. In view of these reactors' prior utilisation levels and their current condition we concluded a 15 year expected life was now more appropriate than the previously assessed 10 years. The impact has been to reduce the depreciation charge in the year and increase the net book value of plant & machinery by £0.2m.

As a result of all the above, Hardide more than halved its operating loss from £2.1m in FY22 to £1.0m in FY23.

EBITDA is a key financial performance indicator used by management to assess the operational performance of the Group. This may be reconciled to the Income Statement as follows:

	2023 £m	2022 £m
Operating loss	(1.0)	(2.1)
Depreciation, amortisation and impairment of owned assets	0.7	0.9
Depreciation and amortisation of right of use assets	0.2	0.3
EBITDA	(0.1)	(0.9)

Net finance costs of £0.2m were slightly higher than in the prior year, mainly reflecting the new extended lease on the Martinsville facility in the USA.

Therefore, the loss before tax for the year of £1.2m also broadly halved compared with prior year levels of £2.3m, as did the loss per share of 1.9p (FY22: 3.9p).

Cash Flow

Hardide's cash flow for the year can be summarised as follows:

£m	Year to 30 Sept 2023	Year to 30 Sept 2022
EBITDA	(0.1)	(0.9)
Reduction in working capital	0.4	-
Other operating cash items	(0.1)	-
Operating cash flow	0.2	(0.9)
Capital expenditure	(0.1)	(0.3)
Business cash flow before financing	0.1	(1.2)
Proceeds from sale and leaseback	0.5	-
Net loan and lease repayments	(0.6)	(0.2)
Equity finance		0.5
Net cash flow for the year	-	(0.9)

Hardide's overall cash performance for the year was break-even, representing a significant improvement from the £0.9m cash outflow in the prior financial year. This reflected the close to EBITDA break-even trading performance, together with strong control of both working capital and capital spend.

Therefore, we began and ended the financial year with net cash resources of £0.7m.

Much work was done during the year to improve working capital efficiency, including consignment stocking arrangements and strong credit control.

The one-off cash benefit arising from the Martinsville lease transaction of £0.5m was largely used to repay existing financing and lease obligations.

Balance Sheet, Capital Structure and Net Debt

The main changes in the Group balance sheet over the year were:

- a reduction in the net book value of property, plant and equipment by £0.8m to £4.6m, as depreciation exceeded capital expenditure; and
- a reduction in current assets by £0.5m to £2.1m due to improved working capital efficiency as described above.

Therefore, total assets decreased by £1.3m to £8.4m.

Total equity / shareholders' funds decreased over the year from £5.5m to £4.3m, largely reflecting the loss after tax for the year.

Hardide's net debt (including lease liabilities) was largely unchanged year on year at £2.3m. This comprised cash of £0.7m (2022: £0.7m), loans of £0.7m (2022: £1.0m) and lease liabilities of £2.3m (2022: £2.0m). As described above, the new lease on the Martinsville facility helped refinance some existing financial obligations that were repaid when due.

Recent trading and financial position

The challenging trading conditions in the first four months of the financial year referred to in the Chair's and Chief Executive's statements led to a significant reduction in the level of cash available to the Group by January 2024 compared with the £0.7m reported at the last financial year end. Costs were reduced accordingly and further equity funding of c.£0.75m is expected to be raised in February 2024.

Funding and going concern

The directors have adopted the going concern basis in preparing the financial statements in the expectation that c.£0.75m (net of costs) of additional equity finance will be raised shortly, and after assessing the principal risks and considering the impact of various downside scenarios to the Group's base case financial plans, including latest sales expectations and profit margins for the period to March 2025.

The Board is continuing to seek a further £0.25m in debt finance to increase financial headroom and resilience.

In light of the above, the Board expects the Group to have sufficient financial and other resources to continue to operate as a going concern for the foreseeable future, but in reaching that conclusion the Board is mindful of the following key sensitivities which, should they occur, would cast significant doubt on that conclusion:

- (a) There is a material shortfall in the anticipated c.£0.75m net proceeds realised from the anticipated equity fundraise; or
- (b) Substantially all of the c.£0.75m net proceeds from the anticipated equity fundraise are realised, the ongoing initiatives to secure c.£0.25m of additional debt are not successful, and the Group does not achieve its base case sales forecast by c.15% or more; or
- (c) Substantially all of the c.£0.75m net proceeds from the anticipated equity fundraise are realised, the ongoing initiatives to secure c.£0.25m of additional debt are successful, and the Group does not achieve its base case sales forecast by c. 20% or more.

Accordingly, the Board has concluded that it remains appropriate to prepare the financial statements on a going concern basis, but that this is subject to material uncertainty as outlined above.

Further details are set out in Note 1 to the financial statements.

Simon Hallam
Finance Director
21 February 2024

RISK REVIEW

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

Risk and analysis	Mitigation and control	Residual risk
Economic and geopolitical Changes in economic conditions (including those caused by geopolitical factors), particularly in the UK, USA and Europe and those impacting the oil & gas sector, could significantly impact Group revenues, profits and cash flows Supply chains remain unpredictable and this can cause volatility in short term demand patterns as customers adjust their stock holding levels accordingly Current forecasts anticipate low levels of economic growth in the shorter term, with risks of modest recession in the key markets in which we operate	This risk is largely outside the Group's control The Board monitors closely relevant economic, industry and customer forecasts, sets / adapts business plans and takes action accordingly	High
Funding To date the Group has been loss-making and therefore remains dependent on outside sources of finance until we achieve our strategic objective of becoming cash generative as soon as possible Should such funding not be available, the viability of the Group would come into question	Strong cash and cost management disciplines are embedded in the business Cash flow statements and forecasts are prepared at least monthly, with sensitivity analyses regularly reviewed by the Board and action taken accordingly Strong relationships and regular communication is maintained with key institutional and private shareholders Track record of shareholder support for, and belief in, the business as it continues to develop	High/Medium
Business development and revenue uncertainties There is a high level of uncertainty as to the degree of success of business development initiatives and the timing of new work wins. Many potential customers require significant testing and pre-approval work before awarding new work to Hardide The Group has very limited (circa one month) order book visibility and has no longer term contractual sales commitments. End customers often buy from us via sub-contractors. All this makes revenue forecasting in Hardide challenging and can lead to short term volatility in revenues	Much of this risk, particularly customer timing, is beyond the Group's control Careful prioritisation and internal probability analysis is undertaken before committing scarce Group resources to development projects Up front development costs mitigated / offset as far as possible through customer and / or grant funding Business development team focus on obtaining and updating customer demand information (direct and indirect) on an ongoing basis Adequate cash buffers sought / maintained to enable short term demand fluctuations to be managed	High/Medium

Customer concentration Customer concentration is improving but remains relatively high. Three customers currently account for more than 10% of sales. Therefore, short term changes in demand patterns for major customers (particularly, de-stocking or re-stocking) can have a material impact on short term revenues, and the loss of a major customer would be significant to the Group's performance	Our business development managers and CEO retain close contact with all customers and potential customers Once the Hardide coating technology has been rigorously tested and proven to provide a specific solution to meet customer needs, project business tends to be retained provided service remains strong as switching costs can be high. There can be some natural loss of business ("churn") as specific projects come to an end The Group has little control over short term demand volatility	High/Medium
Loss of key employees Hardide has a workforce of c.45 people across two operating locations. The unique nature of our coating technology and production process, together with the small size of the company, means know-how in many roles is key	We have a loyal workforce, many of whom are long serving The Group culture fosters regular communication, openness, with management team and employee involvement	Medium
Loss of an operational site Hardide has two factories, one in the UK and one in the USA. Loss of either would be significantly detrimental to the Group's performance, albeit much work is interchangeable between sites and we have spare capacity at both Neither site is exposed to unusual or specific natural resource or climate risks (fire, flood, hurricane, drought etc)	Professional internal operating disciplines, health & safety procedures, and quality standards maintained at both sites (ISO9001 and AS9100,). The UK site also has ISO14001 and NADCAP accreditations Regular fire risk inspections and tests with recommendations implemented Preventative maintenance regimes Insurances held by Hardide and its landlords provide monetary mitigation	Medium
IT and cyber security The Group's operations could be impacted by IT failures or cyber security breaches	The Group has both internal and outsourced IT support capability. Cyber security is managed by an external party and the Group holds the UK government sponsored Cyber Essentials Plus certification Disaster recovery plans in place and tested	Medium
Product failure / warranty Risk of liabilities / losses incurred from third party claims relating to product defect or failure	Extensive testing and certification programmes, working together with customers, largely mitigate this risk and therefore Hardide has a strong product quality record. Hardide does not warrant the performance of the coating in use, only that it meets the described technical properties Standard trading terms seek to limit Hardide's liability to the coating price paid for the parts supplied on the basis that parts are supplied to customers' specifications. Product and public liability insurance is in place	Medium/low

THE BOARD OF DIRECTORS

Andrew Magson

Chair

Andrew was appointed as Chair in October 2022. He is chair of the Audit Committee and a member of the Remuneration and Nomination Committee.

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

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

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

Stephen John Paul

Interim Chief Executive Officer

Appointed Interim CEO on 12th February 2024.

Stephen has a successful 30-year international career in various managing director, commercial development and performance improvement roles for the leading global surface treatment business, Praxair Surface Technologies, now part of the Linde Group. Since 2018, he has led his own consultancy business, Sketchley GmbH, where he has advised a number of coatings companies, including Hardide Coatings, on strategic, business development and operational improvement projects. Prior to joining Hardide Coatings, he worked with the company for several months on the development of sales of coated consumable parts to be supplied direct to end use customers. Stephen holds a Master's degree in Metallurgical Engineering from the University of Sheffield.

Current external appointments: Director of Sketchley GmbH

Simon Andrew Hallam

Finance Director

Simon was appointed Finance Director on 20th April 2020. Simon is Company Secretary.

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

Current external appointments: None

Dr Yuri Nikolaevich Zhuk
Technical Director

Yuri is a co-founder and Technical Director.

Yuri started his career as a scientist and has more than 25 years of successful international technology business experience in advanced materials. He holds an MSc (with Distinction) in Physics and a PhD degree in Plasma Physics and Chemistry from the Lomonosov Moscow State University, and an MBA from the Open University in the UK. Yuri managed the Company's CVD coating technology development from early laboratory stage to the aerospace-approved manufacturing technology now used by blue chip customers. He has participated in several fundraisings from the first seed capital round to the Hardide plc listing on the London Stock Exchange AIM market. As Technical Director, Yuri is responsible for all aspects of development of the Company's technology. He is the author of patents and numerous scientific and technical publications and has presented Hardide's technology at leading international conferences. Yuri brings in-depth knowledge of advanced coatings and surface engineering technology, proven expertise in management of R&D and commercialisation of advanced materials, technology start-ups, patenting and intellectual property management.

Current external appointments: In 2019, Yuri was appointed a Visiting Fellow and a Recognised Teacher at the Cranfield University School of Aerospace, Transport and Manufacturing.

Philip David Kirkham
Director

Philip was appointed as a Director on 1st September 2012.

Philip was Chief Executive Officer of Hardide plc from 1st September 2012 to 11th February 2024. Following the appointment of Stephen Paul as Interim CEO, it is the intention that Philip will retire as a Director after a short handover period. Philip has an executive general management career spanning more than 40 years, the last 30 years at board level in companies predominantly within the metals and engineering sector. His career includes Manufacturing Director at DSF Refractories, Divisional Managing Director at MS International plc, Senior Vice President Metals Division at Firth Rixson Ltd, Executive Vice President at Rolls-Royce plc and CEO of Materials Advantage Group. Prior to this he held senior operational roles at the British Steel Corporation and Sheffield Forgemasters. He holds a BSc in Chemical Engineering from the University of Manchester and an MSc in Advanced Manufacturing Management. Philip is a Chartered Engineer, European Engineer and Fellow of the Institution of Mechanical Engineers. He brings a wealth of knowledge and experience in engineering and manufacturing industries as well as international, general and commercial management experience.

Current external appointments: None

Timothy Julian Rice
Non-Executive Director

Timothy was appointed Non-Executive Director on 20th March 2018. Tim is chairman of the Remuneration and Nomination Committee, a member of the Audit Committee and is Senior Independent Director.

Tim brings more than 30 years of experience in the aerospace and defence sectors, having held senior executive positions with companies such as Vector Aerospace, Safran Group, Spirent and Dowty. He is an experienced advisor to companies in the aerospace and defence sectors, involved in strategy, business development, partnering, and organisational change. Tim holds a BSc in Mechanical Engineering and has an MBA from Warwick University.

Current external appointments: Trustee – Insight Gloucestershire, Director – The International Centre for Birds of Prey.

Andrew Richard Boyce
Non-Executive Director

Andrew was appointed Non-Executive Director on 12th June 2012.

Andrew represents a significant family shareholding in the Group's issued share capital: the family having been an investor in the Group since 2003. He has a deep knowledge and understanding of the Hardide business. He has significant experience as a director on multiple boards and adds an informed and challenging dimension to the Board. Since 1987, Andrew has been involved in the management and growth of numerous family businesses. These encompass farming, property and other commercial activities. After graduating in 1984 with a Diploma in Agriculture and Estate Management from the Royal Agricultural College, Cirencester, Andrew worked in commercial property sales and lettings, and development site appraisals and acquisitions.

Current external appointments: Director of a number of farming and property companies. Other appointments include non-executive director of TDCM Ltd, manufacturer of electric motors for the automotive sector, electric two-wheeler and leisure markets, where he is chair of the Remuneration and Nominations Committee.

Matthew Roger Hamblin
Non-Executive Director

Matthew was appointed Non-Executive Director on 1st November 2023. He is a member of the Remuneration and Nomination Committee and of the Audit Committee.

Most recently, Matt was Chief Executive Officer at Keronite, an advanced coatings and surface treatment company, where he led its growth into profitability and its subsequent sale to the Curtiss-Wright Corporation in November 2022. He has prior experience in a variety of sales and commercial leadership roles. He is currently Commercial Vice President of Nyobolt, a high-performance battery and charging technology company.

Current external appointments: Commercial Vice President, Nyobolt

REPORT OF THE DIRECTORS

Results

The Group loss for the period, after taxation, amounted to £1,118,000 (2022: £2,188,000 loss). The directors have declared that no dividends will be paid in respect of the 2023 financial year (2022: Nil).

Directors

The membership of the Board during the year ended 30 September 2023 and changes to the board and the beneficial interests of the directors and their families in the shares of Hardide plc are shown below.

	Appointed	Resigned	30 September 2023 Number of ordinary 4p shares	30 September 2022 Number of ordinary 4p shares
Andrew Magson	24 October 2022		24,549	-
Andrew Boyce	18 June 2012		1	1
Tim Rice	20 March 2018		27,625	27,625
Philip Kirkham	1 September 2012		183,461	183,461
Yuri Zhuk	14 March 2005		190,420	190,420
Simon Hallam	21 April 2020		10,526	10,526

In addition to the share Andrew Boyce holds in his own name, he also represents family and associated entities totalling 7,830,335 shares. No director had, during or at the end of the year, a material interest in any contract which was significant in relation to the Group's business.

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

Directors' interests in share options

The Group has share option schemes under the terms of which certain directors are able to subscribe for ordinary shares in Hardide plc. Details of the directors' interests in share options are shown in Note 18 to the Group accounts.

Directors' responsibilities for the financial statements

The directors are responsible for preparing the Strategic Report, Directors' Report, and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare Group financial statements in accordance with applicable law and UK adopted international accounting standards and the parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards, including Financial Reporting 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business; and
- state whether applicable UK adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Statement of disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Group's auditor is unaware, and
- the director has taken all steps that they ought to have taken in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Going Concern

The directors have adopted the going concern basis in preparing the financial statements in the expectation that c.£0.75m (net of costs) of additional equity finance will be raised shortly, and after assessing the principal risks and considering the impact of various downside scenarios to the Group's base case financial plans, including latest sales expectations and profit margins for the period to March 2025.

The Board is continuing to seek a further £0.25m in debt finance to increase financial headroom and resilience.

In light of the above, the Board expects the Group to have sufficient financial and other resources to continue to operate as a going concern for the foreseeable future, but in reaching that conclusion the Board is mindful of the following key sensitivities which, should they occur, would cast significant doubt on that conclusion:

- (a) There is a material shortfall in the anticipated c.£0.75m net proceeds realised from the anticipated equity fundraise; or
- (b) Substantially all of the c.£0.75m net proceeds from the anticipated equity fundraise are realised, the ongoing initiatives to secure c.£0.25m of additional debt are not successful, and the Group does not achieve its base case sales forecast by c.15% or more; or
- (c) Substantially all of the c.£0.75m net proceeds from the anticipated equity fundraise are realised, the ongoing initiatives to secure c.£0.25m of additional debt are successful, and the Group does not achieve its base case sales forecast by c. 20% or more.

Accordingly, the Board has concluded that it remains appropriate to prepare the financial statements on a going concern basis, but that this is subject to material uncertainty as outlined above.

Further details are set out in Note 1 to the financial statements.

Longer Term Viability

The directors have assessed the prospects of the Group, and the risks facing it, both as described more fully in the Strategic Report. The Group's financial planning period is three years and, in the Directors' judgement, subject to the uncertainties described above, in the Financial Review and in Note 1 to the financial statements, there is a reasonable expectation that the Group will continue to be viable over that period and beyond.

Substantial shareholders

At 31 December 2023 the following shareholders had a disclosable interest in 3% or more of the nominal value of Hardide plc's shares:

	Shareholding	%
Canaccord Genuity Wealth Management (Institutional)	8,299,415	14.1
Andrew Boyce & Associates	7,830,336	13.3
Executors on behalf of A Badenoch & Associates	5,433,333	9.2
Amati Global Investors	4,521,963	7.7
P Evershed	3,724,466	6.3
Unicorn Asset Management Ltd	3,179,608	5.4
Interactive Investor (Private Clients)	2,973,113	5.1
Hargreaves Lansdown	2,617,252	4.4
T Simpkin	2,265,850	3.9
Killik & Co	1,764,947	3.0

SECTION 172

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

Likely consequences of any decision in the long term

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

Act in the interests of the Group's employees

The CEO holds monthly "Town Hall" staff briefings, incorporating a Q & A session and improvement proposals from staff. Towards the end of the financial year, the Group carried out its first employee engagement survey, and has already implemented several actions identified as part of this survey.

In October 2023, an incentive scheme was put in place for all employees to earn a bonus, contingent upon the Group achieving a positive EBITDA result. Staff were provided with a briefing and training in how they can achieve this.

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

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

The Group maintains regular contact with key customers, working closely with them to adapt Hardide's technology to meet their needs and solve problems. Likewise, the Group co-operates closely with its key suppliers.

The most critical 'bought-in' supplies for production are electricity and the gases used in the coating process. Together, these account for the majority of variable production costs. Internationally, the primary process gas is deemed to be a strategic material. Since electricity is a commodity, the Group reviews regularly its supply arrangements. It has not been found useful to develop a relationship with any particular supplier of electricity, but the Group works frequently with its energy broker.

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

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

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

The investment in new plant and facilities following the move to new premises in 2020 has achieved a reduction in emissions to very low levels and much of the new plant and equipment were optimised for environmental performance. This also improves on the current environmental rules set by the authorities, thereby reducing the Group's environmental impact.

In cooperation with both customers and suppliers and their respective subcontractors, we continue to look to further reduce our carbon footprint through a number of different measures, such as shortening the distance goods have to travel, optimising production scheduling to make the most efficient use of process gas, etc.

Maintain a reputation for high standards of business conduct

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

Act fairly between members of the Group

All shareholders are free to raise matters with the CEO, the Senior Independent Director ("SID") and the Chair. The Chair, CEO and Finance Director meet regularly with larger shareholders (usually once per year) and all shareholders are encouraged to participate in the Annual General Meeting.

Simon Hallam
Director and Company Secretary
21 February 2024

CORPORATE GOVERNANCE STATEMENT

Overview

The Board is committed to high standards of corporate governance. Hardide complies with the Corporate Governance Code of the Quoted Companies Alliance ("QCA Code"). A detailed review of how Hardide complies with each provision of the Code can be found on our website at <https://hardide.com/investor-relations/corporate-governance>

The Board has made a number of enhancements to its governance practices over the last 12 months to enable compliance with the QCA Code. These are:

1. A formal annual review of the Board's performance has been introduced. In 2023, this review was led by the Chair, and this included his own observations having recently joined the Board. The outcome of this review is summarised below. In future it is intended a questionnaire-based approach will be followed in 2024, facilitated by the Chair
2. The Board's Committee structure was simplified and streamlined during the year, with the Board retaining two Committees: the Remuneration and Nomination Committee; and the Audit Committee. The Intellectual Property, and Risk and Sustainability Committees, which were formerly Board Committees, now continue together with the Executive Committee as management committees. Each reports to the full Board at regular intervals during the year. In this way the output from these Committees benefits from the observations, input and the broader range of skills and experience of the whole Board, rather than just certain Board Committee members
3. The ongoing Board Committees are now comprised solely of independent non-executive directors
4. The Audit Committee is now Chaired by a Chartered Accountant with relevant, recent financial experience
5. Following the financial year end, a further independent non-executive director, Matt Hamblin, was added to the Board bringing additional specific coatings industry experience and a skill set that is highly aligned with Hardide's strategy of accelerating revenue growth. The Board now comprises a majority (4 to 3) of non-executive directors, 3 of whom are independent

The Board is cognisant of recent changes to the QCA Code and that the revised Code will apply to our 2025 financial year. In light of the forthcoming changes:

(a) Hardide is aware that it could improve the diversity of its Board and will take opportunities to do so; and

(b) we are currently developing a Remuneration Policy for the first time. This will be based on the emerging principles outlined in the Remuneration and Nomination Committee report later in this Annual Report. We will consult on the proposed Policy in advance and, once it has been published for the first time, we intend to put it to a shareholder advisory vote.

Attendance at meetings

The following table summarises the number of Board and Board Committee meetings held during the financial year ended 30 September 2023. In addition to the formal meetings listed below, Board members and NEDs held a number of informal ad-hoc meetings and discussions.

	Board	Audit Committee	Remuneration & Nomination
A Magson	11	3	7
P D Kirkham	12	3 ¹	7 ¹
S A Hallam	12	3 ¹	-

Y N Zhuk	12	-	-
A R Boyce	12	-	7
T J Rice	12	3	7

¹ invited to participate in the meeting, or part of the meeting, as an attendee

Board priorities for the 2024 financial year

The Board's agreed priorities for the current financial year are:

1. Following the announcement on 1 November 2023 that Philip Kirkham, CEO, is to step down from his position by the end of April 2024, to oversee the successful recruitment of a new CEO and a smooth handover process
2. To obtain further financing facilities to provide additional shorter term headroom
3. To achieve key business targets for the year, with enhanced KPI tracking, monitoring, action planning and better, more open internal communication
4. To better incentivise delivery of key financial metrics through the introduction of whole company incentive plans, with full communication and training on this
5. NEDs to support the Executive team by using their contacts and market knowledge to identify and promote new business opportunities

Matters reserved by the Board and delegated authority levels

There is a formal schedule of matters reserved for a Board decision. This includes the appointment of directors, any raising of funds, the setting of high-level targets, approval of budgets, strategy, capital and revenue expenditure above certain limits, license agreements and incentive schemes. Authority levels for expenditure are delegated to individual executives or management committees according to a schedule agreed by the Board from time to time.

Formulation of strategy

Each year the whole Board considers and develops the Corporate Strategy set out in the previous year. The formulation or re-formulation of Corporate Strategy is led by the Chair but set and agreed by the whole Board. The creation of budgets and Business Strategy is set within the framework of the Corporate Strategy and prepared by the executive directors and other senior management. This Business Strategy is then challenged by the Board, adjusted if necessary, finally approved and then monitored by it. Adjustments agreed necessary are formalised in writing shortly after the review.

A summary of Hardide's Strategy can be found elsewhere in this Annual Report.

Business Reviews

At its regular monthly meetings, the Board reviews both the financial and non-financial performance of the Group. Financial information for the Group and its subsidiaries includes detailed profit & loss accounts, cash flow statements and balance sheets; together with analyses of movements in cash, trade debtors, trade creditors and fixed assets. Close attention is also paid to the development of sales by sector and by customer; as well as progress with initiatives to develop major new applications, sectors and customers. Directors may call for further analysis of a particular matter.

Non-financial information is reviewed at least monthly by the Board. It includes a balanced scorecard containing KPIs from across the business, indicators such as in health, safety & environmental performance, business development, website and e-marketing, plant performance, delivery performance, research & development and sales activity. Progress on strategic projects is also reviewed monthly.

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

Composition, Culture and Effectiveness of the Board

Independence of directors

Each of the directors, except Mr Hamblin who was appointed on 1 November 2023 and Mr Paul who was appointed on 12 February 2024, directly owns ordinary shares in Hardide plc. Mr Boyce represents a large percentage of shares by virtue of his directorship of companies that own Hardide shares. Mr Kirkham, Mr Hallam and Dr Zhuk have options over ordinary shares of Hardide plc; all as declared in the Annual Report and on the Regulatory News Service (RNS) at the time of grant.

As in previous years, the main criteria for independence of Non-Executive Directors were:

- i. Based on the observed conduct of the director at and outside Board and Committee meetings, has that director acted clearly and consistently in the best interests of the Group?
- ii. Has there been any matter affecting the Group that might have given rise or might give rise in the future to any conflict of interest?
- iii. Is the director's direct or indirect holding of shares or other financial instruments of the Group substantial enough to cause an external observer to believe the director in question might possibly have a potential conflict of interest? In this case, 'substantial' has been taken to mean 10% or more of the total issued share capital
- iv. Has the director served on the Board for a period of more than 9 years?

Mr Boyce is not considered independent based on the third and fourth of these tests. However, Mr Boyce's ongoing input to the Board is considered important to its overall effectiveness given the perspective he brings from his substantial external Board and governance experience, and also his alignment with Hardide shareholders' interests through his representation of family shareholdings in the Group.

Number of directors

In the past financial year, a total of six directors served and three of these were non-executive. Tim Rice is the senior independent director ('SID'). In addition, and in compliance with the Code, Tim Rice is the chair of the Remuneration & Nomination Committee. The chair of the Audit Committee is Andrew Magson. The Board is aware that the Chair of the Board should not ideally also chair the Audit Committee, but given the size and financial position of the Group considers this to be appropriate at least for the time being, but keeps this position under review.

Matt Hamblin joined the Board as a further independent Non-Executive Director on 1 November 2023. Steve Paul joined the Board as Interim Chief Executive Officer on 12 February 2024. Philip Kirkham, former CEO, will step down from the Board following a short handover period.

Roles of CEO, Senior Independent Director and Chair

Presently, Hardide is a small company and so most directors have a range of tasks and responsibilities.

CEO:

All members of the senior management team, including the other two executive directors report to the CEO. The CEO develops, gains Board approval for, and implements the Business Strategy. Also, he designs and implements the sales and marketing plans. By virtue of his experience as a professional engineer, he provides strong support for operations and engineering. Also, he has the principal responsibility for the Group's financial performance. He maintains a strong relationship with the Chair and is jointly responsible with him for shareholder communication and, by way of staff briefings, ensures awareness among all staff of the Group's performance and challenges; including increasing their awareness of the Group's environmental and social responsibilities. These briefings are held on a frequent basis throughout the year.

Ensuring compliance with the quality management systems, adequate staff training, the health & safety of employees and the environmental performance are direct accountabilities of the CEO.

Senior Independent Director ('SID'):

The SID is charged with:

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

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

Chair:

The role of the Group's Chair is to:

- i. Ensure effective communication with shareholders;
- ii. be available for private meetings or calls with principal shareholders;
- iii. set the overall rules for corporate governance and ensure compliance with these;
- iv. lead the development of Corporate Strategy;
- v. ensure effective and open communication among directors; particularly at Board meetings;
- vi. chair the Audit Committee;
- vii. together with the CEO, direct and lead recruitment and induction programmes for new directors and senior recruits; and
- viii. ensure the appropriate content, format and presentation of information for the Board.

Board performance review

The Chair led a review of the performance of the Board during the year. This was done through a series of interviews and informal discussions with each director and with key Board advisers and larger shareholders. The conclusion of this review was that the Board had performed satisfactorily during the year. The following principal areas for development were identified:

1. To increase Board level experience and skills in the areas of sales, business development and marketing, particularly in the context of the coatings and surface treatment industries, consistent with the Board's strategy of accelerating revenue growth
2. To gain further clarity on, and to better quantify and prioritise those business development opportunities with a greater probability of success in the short to medium term, consistent with the Board's strategy of accelerating revenue growth
3. The need to increase Board diversity
4. The need for further work on succession planning, whilst recognising the limitations on what is practicable in smaller companies such as Hardide

Range of skills and experience

A review is undertaken annually of the range of skills and experience among the directors in light of the evolving priorities needed to promote and achieve success for Hardide over the longer term.

The number of directors (serving at the date of this report) assessed to have appropriate experience and / or specialisms in the following areas relevant to Hardide are as follows:

Skill or specialism	Number of Directors
Strategy and strategic development	8
General management	6
Coatings, surface treatment and relevant Hardide end user markets	6
Sales, business development and marketing	5
Engineering and new product development	5
Health & safety, operations, manufacturing	6
Human resources	2
International business	8
Corporate governance	5
Corporate finance	5
Finance and accounting	2

Two directors have MBAs, one has a PhD, two are Chartered Accountants, one is a Chartered Engineer and one has a Master's degree in Metallurgical Engineering.

Company Secretary

At present, the Finance Director (Simon Hallam) also acts as the Company Secretary. The directors consider that to be acceptable. This is on the grounds of the size of the Group, and its corporate structure is simple. Moreover, Mr Hallam has ready access to advice from a specialist firm that is familiar with Hardide's needs in respect of secretarial matters.

Succession planning

Overseen by the Remuneration and Nomination Committee, a formal succession plan is maintained for those directors and senior staff who are vital to the operation and ultimate success of the business. The relevant roles and individuals are identified, and the Chair, CEO and Remuneration & Nomination Committee agree on action in respect of the roles covered by the plan.

Main terms of appointment for non-executive directors

The non-executives' principal terms and conditions are available for inspection by shareholders ahead of any general meeting of the Group. What follows is a summary of those terms and conditions.

Annual fees remain unchanged at £60,000 for the Chair and those for the other non-executive directors, each of whom receive £25,000. Fees are paid wholly under the PAYE system; except for Andrew Boyce whose fees are paid split between his personal service company and the PAYE system.

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

All directors are obliged to inform the Board of any new professional commitments or potential conflicts of interest; whereupon other directors will consider the acceptability of such roles. To date, no additional commitment of a director has been found to be unacceptable.

Directors are bound by confidentiality, especially with regard to technology and to the identity of certain customers. Following the end of their appointment, directors may not, for one year, be engaged in any business or technology that does, or reasonably may be expected to, compete with Hardide.

All non-executive directors' appointments are terminable at one month's notice by either party.

Board Committees

The two standing Committees of the Board are as follows:

1. Remuneration and Nomination Committee
2. Audit Committee

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

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

The reports of these committees for the year are in the following sections of the Annual Report.

Conflict Minerals

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

Bribery Act, 2010 (the 'Act') and unethical behaviour

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

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

The Market Abuse Regulation ('MAR')

The Group has comprehensive policies and procedures designed to achieve compliance with MAR. Adherence to this regulation is facilitated by software that, among other things, maintains insider lists and can provide data to the FCA. All relevant members of staff have received copies of the policies and procedures.

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

The UK General Data Protection Regulation ('UK-GDPR' or 'Regulation') and the UK Data Protection Act 2018

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

Cyber security

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

Communication with Stakeholders

Shareholders

When there is a significant event regarding the Group, full use is made of the Regulatory News Service (the 'RNS'). Shortly after the full- and half-year results are published, as well when seeking new funding, the CEO, FD and Chair have made themselves available to present the results in person, or by means of virtual meetings. In addition, the Chair has regular contact with significant shareholders, and they are free to contact him with any concerns. Face-to-face, telephone or video contact between the Chair and shareholders is encouraged.

From time to time, shareholders visit Hardide's premises. On these occasions, they are invited to ask questions and are welcome to express concerns that they may have and give their opinion on how they would like to see the Group develop. Available on the Group's website is a video showing the new facility and the equipment installed within it. Hardide's website is comprehensive and, as well as statutory documents, includes profiles of directors and descriptions of a wide range of Group features and activity. On request, hard copies of Hardide's Annual Report are available from the Group.

Other Stakeholders

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

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

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

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

On behalf of the Board,
Andrew Magson
21 February 2024

REMUNERATION AND NOMINATION COMMITTEE REPORT

Introduction, composition and duties

The Committee comprises Tim Rice as chair, together with Andrew Magson and Matt Hamblin. Matt joined the Committee on his appointment to the Board following the financial year end. All committee members are independent non-executive directors. Until 16 June 2023, Andrew Boyce also served as a member of the Committee. The Committee meets at least quarterly, but in the financial year ended 30 September 2023 it met seven times, as it:

- developed new executive incentive arrangements for the 2024 financial year for recommendation to the Board; and
- oversaw the process for, and recommended to the Board, the appointment of new non-executive director (Matt Hamblin), announced on 1 November 2023.

The Committee's duties are to:

- i. Determine and agree with the Board the framework or broad policy for the remuneration and contractual terms of the Chief Executive Officer (CEO), Chair, the executive directors and senior members of the management team who report to directors;
- ii. design or approve the design of, and recommend to the Board, targets for any performance-related pay schemes operated by the Group and approve the total annual payments made under such schemes. Such schemes and payments are subject to final approval by the Board;
- iii. design all share-related incentive plans for approval by the Board. For any such plans, determine each year whether awards should be made and if so, the overall value of such awards, the individual awards to directors and other senior managers and the performance targets to be used;
- iv. ensure that contractual terms on termination, and any payments made, are fair to the individual and to the Group, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- v. within the terms of the agreed policy and in consultation with the Chair or CEO or both, determine the total individual remuneration package of each executive director and other senior managers who report to the CEO, including bonuses, incentive payments and share options, other share awards or other benefits. Particular attention is paid to designing remuneration packages that are aligned with the plans for the years ahead and especially with the Group's strategic goals;
- vi. at suitable times, review the implementation of succession plans and oversee changes in Board composition;
- vii. oversee any proposal for major changes in employee benefits throughout the Group; and
- viii. oversee the appointment of senior members of staff, including Directors.

Remuneration policy

Policy for the remuneration of the executive directors includes three main objectives. These are to:

- i. Provide remuneration packages to attract and motivate executive directors and senior management of the calibre needed to run the Group successfully, and to retain them;
- ii. ensure that there is a strong link between such remuneration and the Group's strategy; and
- iii. align the executive directors' interests with those of shareholders.

Remuneration components

The remuneration of the executive directors has up to five components. They are:

- i. Base salary;
- ii. an annual performance-related discretionary bonus (non-pensionable). The maximum annual bonus potential is typically in the range 30-50% of base salary;
- iii. a longer-term incentive; principally comprising share options. The maximum annual bonus potential from share options awarded is typically in the range 50-70% of base salary per year;
- iv. medical insurance for employees and their families; and

- v. in some cases, a car or car allowance.

Non-executive directors are paid a fixed fee for their services and are not awarded bonuses or share options, nor do they receive other benefits.

Directors' Service Contracts

The executive directors, Messrs Kirkham, Zhuk and Hallam have service contracts that are terminable at up to 12 months' notice by either party.

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

Compensation for loss of office

There are no pre-determined special provisions for compensation for executive or non-executive directors in the event of loss of office. The Remuneration & Nomination Committee bases payments made on contractual obligations to the director concerned consistent with employment law and, in the case of "good leavers", retains discretion to vary those payments, as it considers appropriate, to specific circumstances. An overriding principle is not to reward poor performance.

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

(a) Nomination

The Committee oversaw the process to identify and recruit a new non-executive director, in accordance with the specifications of the Board, with industry specific commercial, sales and marketing experience. Given the very specific skills and experience required from this appointment the Committee decided, together with the Board, not to work with an external search firm in this instance. This was because a suitably long list of talented potential candidates with a diversity of backgrounds was already known to Board members from their industry knowledge. Following discussions between the Committee and the Board, a short list of four candidates was interviewed by Tim Rice and Andrew Magson, following which Matt Hamblin was identified as the preferred candidate. Given that Matt was already known to all Board members having completed a sales consultancy assignment for Hardide in August 2023, the Board provided further input to Messrs. Rice and Magson to assist them in conducting a final interview with Matt Hamblin and in taking references. This all proved to be satisfactory, and accordingly the Nomination Committee recommended to the Board that Matt be appointed.

The Nomination Committee's other principal activity during the year was to review Board and senior management succession matters, including the intention to seek to address gender balance and other Board diversity considerations as opportunities arise.

(b) Directors' remuneration

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

- to set variable pay incentives for the executive directors and to consider the issue of any further share option incentives. It was decided not to issue further share options for the year ended 30 September 2023, but a management bonus scheme was put in place.
- to agree any variable pay awards to be made in respect of actual performance for the 2023 financial year. On the basis that the relevant financial performance conditions were not met, as these required an EBITDA positive performance for the year, no awards were made.
- to consider pay rises for the executive directors. It was agreed that each of the executive directors should be awarded a 5% base pay rise effective from 1 July 2023, in line with the increase given to the UK workforce as whole. The pay review for the Directors and all employees had been deferred from 1 January 2023, the date it had originally been planned.
- to consider variable remuneration incentives for the executive directors for the new financial year ending 30 September 2024. A cash bonus scheme was implemented in October 2023 which will pay a bonus up to a maximum of 30% of base salary for the executive directors, contingent on the achievement of pre-determined financial objectives based on EBITDA and cash performance for the year. In addition, a share incentive scheme has been proposed and is under development, which will vest up to the value of 50% of each executive director's base pay, contingent on the achievement of pre-determined profit targets aligned with Hardide's strategic plans over a 3-year period. Following the announcement on 1 November 2023 that Phil Kirkham, Chief Executive, will be stepping down

from the Board by 30 April 2024, the Committee negotiated Phil's variable pay arrangements to more specifically incentivise performance during the transition to a new CEO.

- the executive directors, together with the Chair, considered the remuneration of the non-executive directors. The executive directors, together with the non-executives other than the Chair, considered the fees of the Chair. No increase in NED / Chair fees was awarded.
- details of the remuneration of all Board members for the year ended 30 September 2023 are set out in the notes to the financial statements.

Tim Rice

Chair of Remuneration and Nomination Committee
21 February 2024

AUDIT COMMITTEE REPORT

Composition

The Audit Committee comprises Andrew Magson (Committee Chair), Tim Rice and Matt Hamblin. Matt joined the Committee on his appointment to the Board on 1 November 2023. All Committee members are independent directors.

Andrew Magson is a Chartered Accountant and has recent, relevant financial experience. He is therefore judged by the Committee and Board to be an appropriate Chair for the Committee.

The Board is aware that the Chair of the Board should not normally also Chair the Audit Committee. However, given the current size, complexity and financial position of the Group and, having taken advice, the Board concluded that it is appropriate in these circumstances for the same individual to hold both roles.

Normally, the Audit Committee meets with the Group's external auditor at appropriate times during the reporting and audit cycle, and in addition as required. The Committee met three times during the 2023 financial year, and again after the financial year end to review the 2023 Annual Report and Financial Statements and results of the annual external audit.

Duties

The duties of the Audit Committee are to:

- i. Monitor the integrity of the financial statements and the financial reporting process;
- ii. review and challenge the effectiveness of the Group's internal controls, risk identification and risk management systems;
- iii. review the Group's arrangements for its employees to raise concerns in confidence and with impunity about possible wrongdoing and ensure these arrangements allow proportionate and independent investigation;
- iv. review and keep up to date the Group's procedures for detecting and preventing bribery and fraud; and ensure that the Group complies with all relevant legislation in those jurisdictions where the Group operates and / or employs staff; and
- v. monitor the performance of the statutory audit, review the independence and effectiveness of the external auditor; and make recommendations in relation to the appointment, re-appointment and removal of the Group's external auditor.

External audit

The Group's external auditor is James Cowper Kreston Audit.

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

In accordance with the regulations for public company audits, the James Cowper Kreston Audit engagement partner who was responsible for the Hardide plc audit for the previous five financial years was changed by rotation ahead of last year's (FY22) audit.

The external auditor also provides certain non-audit services including annual tax compliance. The Board has reviewed its safeguards and policies in place for non-audit services and is satisfied that for the current financial year these are sufficiently robust to ensure that James Cowper Kreston Audit maintain their audit objectivity and independence. James Cowper Kreston Audit report to the Board annually on their independence from Hardide plc. Non-audit services are provided only if such services do not conflict with their statutory responsibilities and ethical guidance. However, in line with current best practice guidance and to avoid any perception of a potential conflict of interest, the Committee and Board have decided that, in future, tax compliance work will be carried out by another accountancy firm.

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

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

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

- funding and going concern risk;
- lease accounting under IFRS16, and in particular during FY23, the treatment of the purchase, sale and leaseback transaction relating to the Martinsville factory; and
- revenue recognition (principally year end cut-off).

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

Internal control and consideration of the need for internal audit

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

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

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

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

Andrew Magson

Chair of the Audit Committee

21 February 2024

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Our Philosophy

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

Our approach considers the effects that we have on the environment and their significance.

Environmental

Hardide is committed to minimising its emissions to the environment in every aspect.

We coat parts for North American-based customers in our Martinsville, Virginia facility rather than doing so in the UK. This avoids double freight transits across the Atlantic and reduces the amount of global CO₂ emissions.

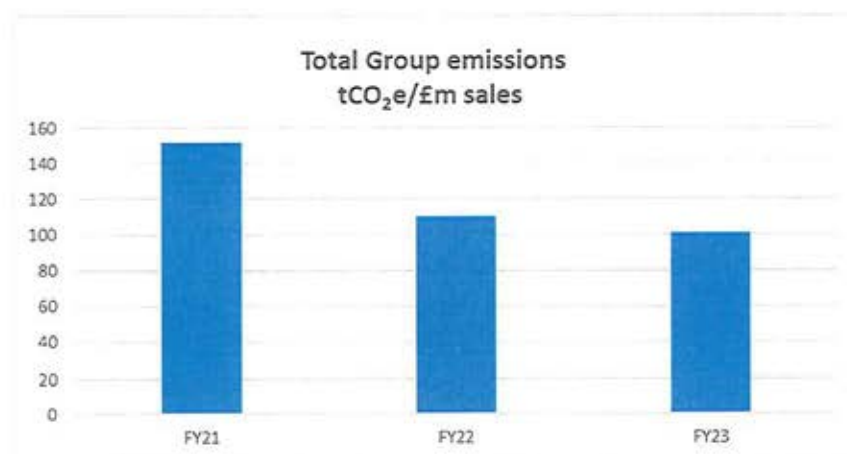
Hardide coatings benefit customers and the environment

One of the best ways of helping to protect the environment is to make parts that last longer in service; this is exactly what Hardide's coatings do. Hardide coated products greatly lower the life cycle costs of customers due to increased operating life of components by reduced wear and enhanced corrosion resistance. Some customer and test reports show over a hundredfold increase in useful operating life. Our coatings also help improve efficiency and provide further benefits to end-users that include reduced downtime and extended service intervals. Each of these features bring environmental and cost benefits.

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

Key metrics

In FY23 we reduced our total Group CO₂ emissions per £m sales by 13% compared with FY22



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



	FY22	FY23	Reduction %
Total electricity used (kWh)	1,307,454	1,211,276	14.4%
kWh/£m sales	261,490	220,232	15.8%

Water Usage

	FY22	FY23	Reduction %
Total water used (m³)	1,064	615.3	42%
Usage (m³/£m sales)	212.9	111.9	47%

Waste

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

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

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

Landfill Waste

	FY22	FY23	Reduction %
Total waste to Landfill (t)	27	27	0%
t/£m sales	5.5	5.0	9%

Transport

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

Electric Vehicles

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

Social

Health & Safety

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

Work Related Lost Time Incidents

We are pleased to report there were no lost time incidents in FY23

	FY22	FY23
Total lost time incidents	1	0
Incident rate	1.13	0

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

Local Community

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

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

Gender Diversity

	Males	Females	Total	Male %	Female %
Directors	6	0	6	100	0
Staff	36	4	40	90	10
Total Group	42	4	46	91.3	8.7

Pay equity – CEO pay as multiple of median UK earnings	5.73
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Governance

Key Metrics

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HARDIDE PLC

Opinion

We have audited the financial statements of Hardide plc (the 'Group') for the year ended 30 September 2023 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom accounting standards, including Financial Reporting 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 September 2023 and of the Group's loss and cash flows for the year then ended;
- the financial statements of the Group have been properly prepared in accordance with UK adopted International Accounting Standards;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom accounting standards; and
- the parent company financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further discussed in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standards as applied to listed entities, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 in the financial statements, which explains significant uncertainties in respect of the Group's ongoing fundraising and future trading and cash flow expectations. As stated in note 1, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group and Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

Our evaluation of the Directors' assessment of the Group and Company's ability to continue to adopt the going concern basis of accounting included:

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HARDIDE PLC (CONTINUED)

An overview of the scope of our audit

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)). We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all our audits we also addressed the risk of management override of internal controls, including evaluating whether there is evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account our understanding of the Group and parent company and their environment, the accounting processes and controls, and the industry in which the Group and Company operate.

The audit scope was as follows:

Hardide plc – the parent company holding investments throughout the Group – full scope audit.

Hardide Coatings Limited – a trading entity that generates a significant amount of the trading results for the Group - full scope audit.

Hardide Coatings Inc – a trading entity that generates a significant amount of the trading results for the Group – appropriate audit procedures for the purpose of the audit of the consolidated financial statements.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified in the Key audit matters section below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing efforts of the engagement team.

In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters below to be the key matters to be communicated in our report. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HARDIDE PLC (CONTINUED)

Revenue recognition

Risk description

There is an inherent risk of error and fraud regarding revenue.

How the scope of our audit responded to the risk

To assess the appropriateness and completeness of revenue recognised in the year we performed the following procedures:

- discussed the revenue recognition policy with management and performed a walkthrough to understand the revenue recognition process;
- examined a sample of revenue transactions by reference to underlying contractual terms;
- examined, on a sample basis, sales invoices, goods delivery notes and postings for items despatched during the year and around the period end;
- reviewed manual journals posted to the revenue account in the period and subsequent to year-end gaining an understanding of the appropriateness of these;
- considered the appropriateness and application of the Group's accounting policy for revenue recognition; and
- considered the adequacy and appropriateness of the disclosures in the financial statements regarding revenue.

Key observations

The results of our testing were satisfactory and we consider the disclosures surrounding revenue to be appropriate.

Grant income recognition

Risk description

The Group has a number of grant agreements in place. There is a risk that the grant income is not recognised correctly or is recognised in the wrong period.

How the scope of our audit responded to the risk

To assess the appropriateness and completeness of grant income recognised in the year we performed the following procedures:

- gained an understanding through walkthroughs performed and discussions with management of the process in place for recognising grant income;
- examined the grant income by reference to underlying terms within the grant agreements;
- reviewed the Group's expenditure in relation to the grants to gain assurance that the grant proceeds were used for the purposes of the grants;
- reviewed the Group's performance against the performance conditions;
- considered the appropriateness and application of the Group's accounting policy for grant income recognition; and
- considered the adequacy and appropriateness of the disclosures in the financial statements regarding the recognition of grant income.

Key observations

The results of our testing were satisfactory and we consider the disclosure surrounding the recognition of grant income to be appropriate.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HARDIDE PLC (CONTINUED)

Sale and leaseback

Risk description

During the year ended 30 September 2023, the Group entered into an agreement to purchase, and subsequently sell and leaseback, property in Martinsville, USA.

The selection and application of an appropriate accounting policy in accordance with IFRS 16 'Leases' is complex due to the bespoke nature of the sale and leaseback arrangement in place. Furthermore, this required significant judgement regarding the assumptions which are applied in accounting for the recognition of the sale and leaseback.

How the scope of our audit responded to the risk

To assess the appropriateness of the application of accounting standards and the assumptions and judgements made by management we performed the following procedures:

- gained an understanding through discussions with management of the process in place to account for the sale and leaseback;
- examined the agreements setting out the sale and leaseback to determine the appropriateness of accounting policies used by management;
- performed recalculations to check the accuracy of the calculations provided; and
- considered the adequacy and appropriateness of disclosures in the financial statements regarding the sale and leaseback.

Key observations

The results of our testing were satisfactory and we consider the disclosures surrounding the sale and leaseback to be appropriate.

Management override

Risk description

In preparing the financial statements management are required to make judgements, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form a basis for making the judgements about the carrying value of assets and liabilities that are not available from other sources.

How the scope of our audit responded to the risk

During the course of our audit we performed the following procedures to address the risk of management override:

- gained an understanding through discussions with management of the process in place for posting journal entries;
- assessed the appropriateness of accounting policy choices made by management and the basis of key judgements, estimates and assumptions;
- reviewed manual journal entries posted within the period for indicators of management bias, transactions outside the normal course of business or indicators of fraudulent activity;
- examined on a sample basis manual journals deemed to be higher risk gaining an appropriate understanding of the business rationale as well as confirming the accuracy of postings;
- considered the value, nature and cause of misstatements identified during the course of the audit to identify indicators of bias; and
- considered the adequacy and appropriateness of disclosures in the financial statements regarding significant accounting policies, judgements and estimates.

Key observations

The results of our testing were satisfactory and we consider the disclosures surrounding accounting policies and key accounting judgements to be appropriate.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HARDIDE PLC (CONTINUED)

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

On the basis the Group focus is on increasing sales significantly and transitioning from significant losses, towards break-even and profitability, a turnover rather than loss-based measure was deemed the most appropriate benchmark to use to calculate materiality. Having regard to both the size of the business and its performance, 1.5% of turnover was viewed as an appropriate level to set materiality. Based on our professional judgement materiality was set at £82,000 (2022: £75,000). Performance materiality of £57,000 (2022: £53,000) was applied for testing and it was agreed with the Board that we would report on all audit differences in excess of £4,000 (2022: £4,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Group materiality in the prior year was also based on a turnover based benchmark.

The parent company does not generate significant sales and incurs significant expenditure. As a result, we believe a loss-based measure to be the most appropriate benchmark to use to calculate materiality for the parent company financial statements. Having regard to both the size of the company and its performance, 5% of the loss before tax, after adjusting for foreign exchange gains and losses on intercompany balances and intercompany charges, was viewed as an appropriate level to set materiality. Based on our professional judgement materiality was set at £48,000 (2022: £41,000). Performance materiality of £34,000 (2022: £29,000) was applied for testing and it was agreed with the Board that we would report on all audit differences in excess of £2,000 (2022: £2,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Parent company materiality in the prior year was also based on a pre-tax loss-based benchmark.

Other information included in the annual report

The other information comprises the information included in the Annual Report other than the financial statements and our Auditor's Report thereon. The Directors are responsible for the other information contained within the Annual Report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HARDIDE PLC (CONTINUED)

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for the audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on pages 19-20, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors' either intend to liquidate the Group and parent company or to cease operating, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

- Enquiry of management and those charged with governance around actual and potential litigation and claims;
- Reviewing minutes of meetings of those charged with governance;
- Reviewing reports and submissions with regulatory bodies including enquiries of those in compliance functions;
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations;

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HARDIDE PLC (CONTINUED)

- Reviewing the robustness of, and compliance with, the Group's internal control procedures in the identification of irregularities, including fraud;
- Examined, on a sample basis, manual journals deemed to be higher risk, gaining an appropriate understanding of the business rationale as well as confirming the accuracy of postings and reviewing accounting estimates for bias.

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

Use of our report

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

James Cowper Kreston Audit

Alan Poole BA (Hons) FCA (Senior Statutory Auditor)

For and on behalf of

James Cowper Kreston Audit

Chartered Accountants and Statutory Auditor

2 Chawley Park

Cumnor Hill

Oxford

OX2 9GG

United Kingdom

Date: 21 February 2024

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 September 2023

		2023 £000	2022 as restated £000
Revenue	2	5,499	5,015
Cost of sales		(2,886)	(3,135)
Gross profit		2,613	1,880
Administrative expenses		(2,871)	(2,821)
Other operating income		159	-
Other operating costs		(932)	(1,208)
Operating (loss)	3	(1,031)	(2,149)
Finance income	4	3	4
Finance costs	5	(59)	(49)
Finance costs on right of use assets	5	(106)	(80)
(Loss) on ordinary activities before taxation		(1,193)	(2,274)
Taxation	7	75	86
(Loss) on ordinary activities after taxation		(1,118)	(2,188)
(Loss) per share: Basic	8	(1.9)p	(3.9)p
(Loss) per share: Diluted	8	(1.9)p	(3.9)p
Other Comprehensive Income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(144)	304
Total comprehensive loss for the year attributable to owners of the parent company		(1,262)	(1,884)

All operations are continuing.

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

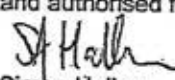
The prior year has been restated to report depreciation and amortisation on owned assets, and depreciation on right of use assets, as other operating costs.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For Hardide plc, company registered number 05344714
at 30 September 2023

		2023 £000	2022 £000
Assets			
Non-current assets			
Goodwill	9	-	69
Intangible assets	10	9	19
Property, plant & equipment	11	4,640	5,402
Right of use assets	12	1,697	1,660
Total non-current assets		6,346	7,150
Current assets			
Inventories	13	236	487
Trade and other receivables	13	742	955
Other current financial assets	13	335	450
Cash and cash equivalents	13	740	693
Total current assets		2,053	2,585
Total assets		8,399	9,735
Liabilities			
Current liabilities			
Trade and other payables	14	919	1,077
Loans	14	253	238
Deferred income	14	17	19
Right of use lease liability	14	182	201
Total current liabilities		1,371	1,535
Net current assets		682	1,050
Non-current liabilities			
Loans	16	508	780
Deferred income	16	72	98
Right of use lease liability	16	2,106	1,742
Provisions			
Provision for dilapidations	15	50	50
Total non-current liabilities		2,736	2,670
Total liabilities		4,107	4,205
Net assets		4,292	5,530
Equity attributable to equity holders of the parent			
Share capital	17	4,063	4,063
Share premium	17	19,242	19,242
Retained earnings		(19,318)	(18,200)
Share-based payments reserve		577	553
Translation reserve		(272)	(128)
Total equity		4,292	5,530

The financial statements were approved and authorised for issue by the Board on 21 February 2024.


Philip Kirkham
Director


Simon Hallam
Finance Director

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 September 2023

	2023 £000	2022 £000
Cash flows from operating activities		
Operating (loss)	(1,031)	(2,149)
Gain on sale and leaseback	(159)	-
Impairment of goodwill	69	-
Depreciation and amortisation on owned assets	677	890
Depreciation on right of use assets	186	318
Share option charge / (credit)	24	(9)
Decrease in inventories	251	17
Decrease / (increase) in receivables	243	(372)
(Decrease) / increase in payables	(93)	372
(Decrease) in provisions	-	(34)
Cash generated from / (used in) operations	167	(967)
Finance income	3	4
Finance costs	(59)	(49)
Right of use asset interest	(106)	(80)
Tax received	161	78
Net cash generated from / (used in) operating activities	166	(1,014)
Cash flows from investing activities		
Proceeds from sales of property, plant and equipment	-	7
Purchase of intangibles	(2)	(1)
Purchase of property, plant and equipment	(108)	(298)
Net cash used in investing activities	(110)	(292)
Cash flows from financing activities		
Net proceeds from issue of ordinary share capital	-	509
Proceeds from sale and leaseback	477	-
New loans raised	-	325
Loans repaid	(286)	(261)
Repayment of leases	(289)	(251)
Net cash (used in) / generated from financing activities	(98)	322
Effect of exchange rate fluctuations	89	134
Net increase / (decrease) in cash and cash equivalents	47	(850)
Cash and cash equivalents at the beginning of the year	693	1,543
Cash and cash equivalents at the end of the year	740	693

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2023

	Share Capital £'000	Share Premium £'000	Share-based Payments £'000	Translation Reserve £'000	Retained Earnings £'000	Total Equity £'000
At 1 October 2021	3,942	18,854	562	(432)	(16,012)	6,914
Issue of new shares	121	388	-	-	-	509
Share options	-	-	(9)	-	-	(9)
Exchange translation	-	-	-	304	-	304
Loss for the year	-	-	-	-	(2,188)	(2,188)
At 30 September 2022	4,063	19,242	553	(128)	(18,200)	5,530
At 1 October 2022	4,063	19,242	553	(128)	(18,200)	5,530
Share options	-	-	24	-	-	24
Exchange translation	-	-	-	(144)	-	(144)
Loss for the year	-	-	-	-	(1,118)	(1,118)
At 30 September 2023	4,063	19,242	577	(272)	(19,318)	4,292

NOTES TO THE GROUP FINANCIAL STATEMENTS

1. Accounting policies

Accounting convention

The Group is required to prepare its financial statements in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) 2006 issued and effective at the time of preparing these annual financial statements, in conformity with the requirement of the Companies Act.

Standards, amendments and interpretations that are not yet effective for Hardide Plc and have not been early adopted:

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

Effective date* 1st January 2023

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

Effective date* 1st January 2024

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

* the standard is effective for accounting periods beginning on or after this date.

The directors are currently reviewing the effect on the financial statements of the Group in future periods.

The following principal accounting policies have been applied:

Basis of preparation

The financial statements have been prepared on the going concern basis, under the historical cost convention. These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. All amounts are rounded to the nearest thousand pounds.

Principal activity

The principal activity of the Group and parent company is a leading producer of patented Chemical Vapour Deposition (CVD) coatings for the oil and gas industry, flow control equipment, advanced engineering and aerospace.

Going concern

The directors have adopted the going concern basis in preparing the financial statements in the expectation that c.£0.75m (net of costs) of additional equity finance will be raised shortly, and after assessing the principal risks and considering the impact of various downside scenarios to the Group's base case financial plans, including latest sales expectations and profit margins for the period to March 2025.

The directors considered how the current economic climate, including external forecasts of lower economic growth or recession in 2024, higher interest rates and inflation, and current year to date trading including de-stocking by customers may affect the performance of the business.

The profitability and cash flow performance of the business is highly sensitive to changes in sales volumes due to the high level of operational gearing and fixed costs.

The Board is continuing to seek a further c.£0.25m in debt finance to increase financial headroom and resilience.

In light of the above, the Board expects the Group to have sufficient financial and other resources to continue to operate as a going concern for the foreseeable future, but in reaching that conclusion the Board is mindful of the following key sensitivities which, should they occur, would cast significant doubt on that conclusion:

- (a) There is a material shortfall in the c.£0.75m net proceeds realised from the anticipated equity fundraise; or
- (b) Substantially all of the c.£0.75m net proceeds from the anticipated equity fundraise are realised, the ongoing initiatives to secure c.£0.25m of additional debt are not successful, and the Group does not achieve its base case sales forecast by c.15% or more; or
- (c) Substantially all of the c.£0.75m net proceeds from the anticipated equity fundraise are realised, the ongoing initiatives to secure c.£0.25m of additional debt are successful, and the Group does not achieve its base case sales forecast by c. 20% or more.

Accordingly, the Board has concluded that it remains appropriate to prepare the financial statements on a going concern basis, but that this is subject to material uncertainty as outlined above.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Hardide plc and entities controlled by Hardide plc (its subsidiaries) made up to 30 September each year.

Control is achieved where Hardide plc has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

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

Revenue recognition

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

Revenue shown in the Statement of Comprehensive Income only relates to revenue recognised from contracts with customers, and no other sources of revenue are included. No impairment losses have been recognised to any receivable during the period.

Opening and closing balances of receivables from contracts with customers are shown in note 13. Hardide's performance obligations are satisfied upon despatch of goods from our premises. Hardide does not have any bill-and-hold arrangements with its customers. Our normal terms of payment are 30 days from date of invoice although for some customers, other terms have been agreed including End of Month Following, and 45 and 60 days from date of invoice. Contracts do not have financing components and consideration is not variable.

Hardide provides a coating service for components owned and provided by its customers, and also sells coated components it has sourced itself. Any component deemed by a customer as non-conforming can be returned for rework or, in the case of a Hardide-sourced component, replaced. Where neither of these are

possible, a credit note is raised for the amount invoiced for the non-conforming product. Hardide does not provide any warranties or guarantees concerning the coating's performance, it is the responsibility of the customer to determine that the coating is suitable for and has been appropriately tested for its needs.

There are no remaining performance obligations to be disclosed. Performance obligations are satisfied in full upon delivery and revenue is recognised at that point. Our terms of business are ex-works in all cases, and delivery takes place when the goods are made available to the customer. Transaction price allocated to the performance obligation is fixed at the price specified in the customer purchase order and does not include any estimate for variable consideration, non-cash consideration or adjustment for the time value of money. Measurement of the obligation to rework or replace non-conformance is not included due to the rarity of such occurrences. There are no assets recognised from the costs of obtaining or fulfilling contracts with customers.

Research and development

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

Intangible assets: Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least annually.

Goodwill arising on acquisitions before the date of transition to IFRS (1 October 2006) has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date and at least annually thereafter. On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible assets: Other

Separable intangible assets are recognised separately from goodwill on all acquisitions after the date of transition, are initially measured at fair value and amortised over their useful economic lives. Purchased intangible assets are capitalised at cost and amortised over their useful economic lives. For computer software this is typically 4 years.

Impairment of intangible assets

Goodwill is allocated to cash-generating units for the purposes of impairment testing. The recoverable amount of the cash-generating unit to which the goodwill relates is tested annually for impairment or when events or changes in circumstances indicate that it might be impaired. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Intangible assets other than goodwill are tested for impairment when a trigger event occurs. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Recoverable amount is the higher of fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. An impairment loss is recognised to the extent that the carrying value exceeds the recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. A reversal of an impairment loss is recognised as income immediately, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is provided on the cost of assets less any residual value over their estimated useful lives, using the straight line method, as follows:

Plant & machinery	2 to 15 years
Leasehold improvements	Over remaining term of lease
Fixtures & fittings	4 years
Computer equipment	4 years

During the financial year, the directors have reviewed the useful economic life of certain plant and machinery that were previously being depreciated over 10 years, and have determined that these assets have a longer estimated economic life due to regular maintenance and capacity use, and that 15 years is more appropriate. The effective date of this change in policy is 1st October 2022, and the impact has been to reduce the depreciation charge in the year and increase the net book value of plant & machinery by £163,000. Depreciation is not charged on assets under construction.

The carrying values of property, plant and equipment and investments measured using a cost basis, are reviewed for impairment only when events indicate the carrying value may be impaired.

Investments

Investments held as fixed assets are stated at cost less any provision for impairment.

Inventories

Inventories are valued at the lower of cost and net realisable value. The costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials	Cost of purchase on a first in, first out basis.
Work in Progress and Finished goods	Cost of raw materials and direct labour and a proportion of manufacturing overheads based on the normal level of activity.

Net realisable value is based on the estimated selling price less estimated costs to completion and estimated costs necessary to make the sale. Inventory is regularly tested for obsolescence, any items so identified are written off to the P&L account. There is no general obsolescence provision.

Leases – IFRS 16

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

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

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

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

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

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

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

A sale and leaseback transaction is one where the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer. The assets are sold at fair market value, and accordingly the profit or loss from the sale is recognised immediately in the Statement of Comprehensive Income.

Financial instruments

The Group does not enter into hedging or speculative derivative contracts.

Financial assets and liabilities are recognised on the Group's Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

Income and expenditure arising on financial instruments is recognised on the accruals basis, and credited or charged to the profit and loss account in the financial period to which it relates.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions. In addition, contracts which result in the entity delivering a variable number of its own equity instruments are financial liabilities. Shares containing such obligations are classified as financial liabilities.

Finance costs and gains or losses relating to financial liabilities are included in the income statement. The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Dividends and distributions relating to equity instruments are debited directly to reserves. Equity instruments issued are recorded at the proceeds received, net of direct issue costs.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, and short-term deposits with an original maturity period of approximately one hundred days or less.

Trade and other receivables and payables

Trade and other receivables are stated at amounts receivable less any provision for recoverability. Trade payables are stated at their nominal value.

Government grants

Government grants towards research and development and investment are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

Foreign currencies

The Group's functional and presentation currency is Sterling. Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the Statement of Financial Position date are translated at the rates of exchange ruling at that date. Gains and losses arising on translation are recognised in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated into Sterling at the exchange rate at the date of the Statement of Financial Position. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are classified as equity and are transferred to the translation reserve. Exchange gains and losses arising on the translation of the Group's net investment in foreign entities are also classified as equity.

Share-based payments

The fair value of equity-settled share payments is determined at the date of grant and is recognised on a straight line basis over the vesting period based on the Group's estimate of options that will eventually vest. Fair value is measured by use of a Black-Scholes pricing model.

Retirement benefits

The Group operates a workplace pension scheme for its employees since November 2016, and makes the statutory minimum contributions to it.

Short-term employee benefit costs

The undiscounted amount of short-term benefits attributable to services that have been rendered in the period are recognised as an expense. Any difference between the amount of cost recognised and the cash payments made is treated as a liability or prepayment as appropriate.

Taxation

The charge for current tax is based on the results for the period as adjusted for items that are non-assessable or disallowed, and is calculated using tax rates that have been enacted or substantively enacted by the Statement of Financial Position date.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the Statement of Financial Position differs from its tax base. Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. Deferred tax liabilities are recognised for taxable temporary differences. Such assets and liabilities are not recognised if the temporary difference arises from the amortisation of goodwill or the initial recognition of other assets and liabilities in a transaction that is not a business combination and affects neither the tax profit nor the accounting profit.

The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted at the Statement of Financial Position date, and are expected to apply when the deferred tax assets or liabilities are settled or recovered. Deferred tax balances are not discounted.

Deferred tax is charged or credited in the income statement except where it relates to items charged or credited to equity, in which case the deferred tax is dealt with there. Research and Development Tax Credits are recognised on an accruals basis.

Borrowings

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the Statement of Financial Position date. All borrowing costs are recognised in the income statement in the period in which they are incurred.

Provisions

Provisions are made when the Group has a present obligation as a result of past events, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount can be reliably estimated. Provisions are discounted to present value where the impact is significant, using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Critical accounting estimates and judgements:

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are addressed below:

(a) Property, plant and equipment represents a significant proportion of the asset base of the Group being 55% of the Group's total assets. The estimates and assumptions made to determine their carrying value and related depreciation are significant to the Group's financial position and performance. The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. No residual value is expected for any of the Group's assets and, apart from some items of high-value specialised equipment where the useful economic life is estimated to be 15 years, other plant and machinery is estimated to have between 2 and 10 years of useful life from the date of purchase or installation.

(b) Going concern basis including its effect on the impairment of assets. The Group monitors cash flow as part of its day to day control procedures and management consider cash flow projections on a monthly basis and also prepares detailed forward projections for future periods which also include various scenarios. As a consequence, the Directors are satisfied that the Group is able to maintain sufficient resources to continue in operation for the foreseeable future. Accordingly, they have adopted the going concern basis in preparing the financial statements. Were this not to be the case the carrying value of the Group's assets may have to be impaired.

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

2. Segmental analysis

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

Year ended 30 September 2023	UK operation £000		US operation £000		Corporate £000		Total £000	
	2023	2022 as restated	2023	2022 as restated	2023	2022 as restated	2023	2022 As restated
External revenue	3,154	3,076	2,345	1,939	-	-	5,499	5,015
Operating profit / (loss)	(776)	(1,545)	759	201	(1,014)	(805)	(1,031)	(2,149)
Segment assets	6,196	6,855	2,054	2,323	149	557	8,399	9,735
Expenditure for non-current assets	22	221	23	81	-	-	45	302
Segment liabilities	2,594	2,962	1,225	893	288	350	4,107	4,205

Following a review of practice and the key profit metric used in the Group, the Board has decided that operating profit or loss is a more appropriate measure than profit or loss after tax, and consequently the prior year has been restated to report the segmental operating profit or loss. The Group currently has a single business product, so no secondary analysis is presented. Revenue from external customers is attributed according to their country of domicile. Turnover by geographical destination is as follows:

	UK £000	Europe £000	N America £000	Rest of World £000	Total £000
External sales					
2023	1,938	95	3,396	70	5,499
2022	1,314	666	3,007	28	5,015

The UK operation sells to the UK, Europe and some North American customers, while the US operation only sells to North America. During 2023, of the £3,396,000 sales to North American customers, £1,051,000 originated from the UK operation. All revenue is recognised at a point in time and no revenue is recognised over time.

Three external customers (2022 – four) contributed more than 10% of the Group's continuing external sales for the year ended 30 September 2023. The external sales for these customers were £1,429,000, £1,238,000 and £1,058,000 which have been recorded within both the UK and US operation reportable segments, excluding central costs.

3. Operating loss

This is stated after charging / (crediting):	2023	2022
	£000	£000
Auditor's remuneration		
fees payable to the Company's current auditor for:		
the audit of the Group's accounts	39	37
tax compliance	8	5
Cost of inventory recognised as an expense	1,351	1,561
Research and development	424	483
Income from grants	(110)	(201)
Share option charge / (credit)	24	(9)
Gain on sale and leaseback	(159)	-
Impairment of goodwill	69	-
Depreciation and amortisation		
- owned assets	677	890
- right of use assets	186	318
Exchange differences	38	(31)

Earnings Before Interest, Taxation, Depreciation and Amortisation ("EBITDA") is a key financial performance indicator used by management to assess the operational performance of the Group. This may be reconciled to the Income Statement as follows:

	2023 £000	2022 £000
Operating loss	(1,031)	(2,149)
Add back non-cash other operating costs:		-
Impairment of goodwill	69	-
Depreciation and amortisation of owned assets	677	890
Depreciation and amortisation of right of use assets	186	318
EBITDA	(99)	(941)

4. Finance income

	2023 £000	2022 £000
Interest on bank deposits	3	4

5. Finance costs

	2023 £000	2022 £000
Interest on loans	59	49
Interest on right of use assets	106	80
	165	129

6. Employees

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

	2023	2022
Technical	12	13
Production	23	20
Sales and marketing	5	6
Management and administration	6	5
	46	44

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

	2023 £000	2022 £000
Wages and salaries	2,481	2,519
Social security costs	261	271
Employer pension contributions	44	45
Share option expense / (credit)	24	(9)
	2,810	2,826

Of the total share option charge of £24,000 in the year, £20,000 relates to options held by directors. The Group contributes to defined contribution plans for employees. The assets of the scheme are held separately from those of the Group in independently administered funds. The Group contributes 3% (2022: 3%) of pensionable salary to the scheme for all eligible employees who opted into the scheme. The pension cost charge represents contributions payable by the Group to the fund. There were no amounts outstanding to be paid at the year end.

The directors are the Key Management Personnel of the Group. Remuneration of directors during the year was as follows:

		2023 £000	2022 £000
Philip Kirkham (Chief Executive)	Salary	203	199
Dr Yuri Zhuk (Technical Director)	Salary	125	122
	Pension	8	8
Simon Hallam (Finance Director)	Salary	105	103
	Other benefits	8	8
	Pension	1	1
Andrew Magson (Non-Executive Chair)	Fees	56	-
Andrew Boyce (Non-Executive Director)	Fees	25	25
Tim Rice (Non-Executive Director)	Fees	25	25
Robert Goddard (former Non-Executive Chairman)	Fees	16	50
Total directors' remuneration		572	541

7. Taxation

(a) Tax on ordinary activities:

	2023 £000	2022 £000
UK Corporation Tax Charge	(76)	(73)
Adjustment in respect of prior years	1	(13)
	<u>(75)</u>	<u>(86)</u>
Deferred Tax		
Origination and reversal of timing differences	-	-
Adjustments in respect of prior periods	-	-
Effect of rate change on opening balance	-	-
Tax	<u>(75)</u>	<u>(86)</u>

(b) Factors affecting current tax charge:

The tax assessed on the profit on ordinary activities for the year is lower than (2022: lower than) the effective rate of corporation tax in the UK of 22% (2022: 19%) as the UK companies are loss making.

	2023 £000	2022 £000
Loss on ordinary activities before taxation	(1,193)	(2,274)
Loss on ordinary activities by rate of tax	(262)	(432)
Effect of:		
Expenses not deductible for tax purposes	(299)	126
Deferred tax not recognised	597	175
Adjustment in respect of prior periods	1	(13)
Adjustment to opening / closing deferred tax	(72)	-
R&D enhanced expenditure	(138)	(75)
R&D surrendered	105	133
Non-taxable income	(19)	-
Other differences	12	-
Total current tax (note 7a)	(75)	(86)

The standard rate of corporation tax in the UK is currently 25%, although the effective rate is 22% following the increase in the rate from 19% to 25% on 1st April 2023 (2022: 19%). The Group has unutilised trading tax losses of approximately £13.1m (2022: £11.6m) available to carry forward against future trading profits. The general principle in IAS 12 is that a deferred tax asset is recognised for unused tax losses to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised. No deferred tax asset has been recognised in respect of these amounts due to the unpredictability of future taxable profits.

8. Earnings per ordinary share

	2023 £000	2022 £000
(Loss) on ordinary activities after tax	(1,118)	(2,188)
Basic earnings per ordinary share:		
Weighted average number of ordinary shares in issue	58,901,959	56,058,053
Earnings per share	(1.9)p	(3.9)p

As net losses were recorded in 2023 and 2022, the potentially dilutive share options are anti-dilutive for the purposes of the loss per share calculation and their effect is therefore not considered.

9. Goodwill

	2023 £000	2022 £000
Cost at 1 October and 30 September	69	69
Amortisation b/fwd	-	-
Impairment in the year	69	-
Amortisation c/fwd	69	-
Net book value at 1 October	69	69
Net book value at 30 September	-	69

Goodwill relates to the acquisition of the net liabilities of Isle Hardide Limited by Hardide Coatings Limited which occurred in October 2000 and which were valued at £99,095, for which no consideration was paid. The goodwill had previously been amortised over 20 years under UK GAAP until conversion to IFRS on 1 October 2006. Total amortisation up to that date amounted to £30,000 giving a net book value of £69,095.

The Group tests whether goodwill has suffered any impairment on an annual basis. The Directors consider there to be one cash generating unit for the purposes of assessing for impairment of goodwill. Due to the continuing uncertainties in respect of future trading and cash flow expectations, the directors have decided to impair the net book value of goodwill during the year, and this is included in other operating costs in the Statement of Comprehensive Income.

10. Intangible assets

	2023 Computer software £000	2022 Computer software £000
Cost at 1 October	77	78
Additions	2	1
Disposals	-	(2)
Cost at 30 September	79	77
Amortisation b/fwd	58	42
Disposals	-	(2)
Amortisation in the year	12	18
Amortisation c/fwd	70	58
Net book value at 1 October	19	36
Net book value at 30 September	9	19

11. Property, plant and equipment

	Leasehold buildings £000	Plant, vehicles and fixtures £000	Computer equipment £000	Total £000
Cost at 1 October 2021	1,782	7,815	164	9,761
Additions	23	274	4	301
Disposals	(264)	(341)	(25)	(630)
Exchange differences	50	600	7	657
Cost at 30 September 2022	1,591	8,348	150	10,089
Depreciation at 1 October 2021	531	3,420	110	4,061
Provided in the year	146	701	25	872
Disposals	(263)	(340)	(25)	(628)
Exchange differences	32	345	5	382
Depreciation at 30 September 2022	446	4,126	115	4,687
Net book value at 1 October 2021	1,251	4,395	54	5,700
Net book value at 30 September 2022	1,145	4,222	35	5,402
Cost at 1 October 2022	1,591	8,348	150	10,089
Additions	-	38	5	43
Disposals	-	-	-	-
Exchange differences	(27)	(312)	(3)	(342)
Cost at 30 September 2023	1,564	8,074	152	9,790
Depreciation at 1 October 2022	446	4,126	115	4,687
Provided in the year	134	508	23	665
Disposals	-	-	-	-
Exchange differences	(17)	(182)	(3)	(202)
Depreciation at 30 September 2023	563	4,452	135	5,150
Net book value at 1 October 2022	1,145	4,222	35	5,402
Net book value at 30 September 2023	1,001	3,622	17	4,640

During the financial year, the directors have reviewed the useful economic life of certain plant and machinery that were previously being depreciated over 10 years, and have determined that these assets have a longer estimated economic life due to regular maintenance and capacity use, and that 15 years is more appropriate. The effective date of this change in policy is 1st October 2022, and the impact has been to reduce the depreciation charge in the year and increase the net book value of plant & machinery by £163,000.

12. Right of use assets

	Buildings £000	Equipment £000	Vehicles £000	Total £000
Cost at 1 October 2021	2,344	71	41	2,456
Additions	68	-	-	68
Disposals	(255)	(13)	-	(268)
Adjustments	-	-	2	2
Exchange differences	60	-	-	60
Cost at 30 September 2022	2,217	58	43	2,318
Depreciation at 1 October 2021	521	42	12	575
Provided in the year	288	19	11	318
Disposals	(255)	(13)	-	(268)
Adjustments	4	-	-	4
Exchange differences	29	-	-	29
Depreciation at 30 September 2022	587	48	23	658
Net book value at 1 October 2021	1,823	29	29	1,881
Net book value at 30 September 2022	1,630	10	20	1,660
Cost at 1 October 2022	2,217	58	43	2,318
Additions	332	-	46	378
Disposals	(322)	-	(19)	(341)
Exchange differences	(31)	-	-	(31)
Cost at 30 September 2023	2,196	58	70	2,324
Depreciation at 1 October 2022	587	48	23	658
Provided in the year	162	10	14	186
Disposals	(183)	-	(19)	(202)
Exchange differences	(15)	-	-	(15)
Depreciation at 30 September 2023	551	58	18	627
Net book value at 1 October 2022	1,630	10	20	1,660
Net book value at 30 September 2023	1,645	-	52	1,697

13. Current assets

	2023 £000	2022 £000
Inventories		
Raw materials and consumables	187	412
Manufactured parts for resale	43	52
Work in progress	6	23
	236	487
Receivables		
Trade receivables	729	942
Other receivables	13	13
	742	955
Other current financial assets		
Prepayments	238	217
VAT receivable	-	73
R&D tax receivable	75	160
Accrued income	22	-
	335	450
Cash and cash equivalents		
Sterling	271	468
US Dollar	469	225
	740	693
Total current assets	2,053	2,585

There is no general provision for bad debts. During the year, no specific trade receivables were classified as a bad debt (2022: £Nil). Trade receivables are regularly reviewed for age and possible impairment. It is the directors' opinion that, as at the Statement of Financial Position date, no trade receivable required impairment. The ageing of trade receivables is as follows:

	2023 £000	2022 £000
Current	429	526
1 month	285	200
2 months	14	108
3 months	-	22
More than 3 months	1	86
Total trade receivables	<u>729</u>	<u>942</u>

A total of £300,000 (2022: £416,000) trade receivables are over 30 days old and therefore overdue.

14. Current liabilities

	2023 £000	2022 £000
Trade payables	625	812
Taxation and social security costs	67	65
VAT payable	24	-
Accruals	<u>203</u>	<u>200</u>
	919	1,077
Loans	253	238
Deferred income	17	19
Right of use lease liability	<u>182</u>	<u>201</u>
Total current liabilities	<u>1,371</u>	<u>1,535</u>

15. Provisions

	Onerous lease £000	Dilapidations £000	Total £000
Provision at 1 October 2021	4	80	84
Provisions utilised	(4)	(98)	(102)
Provisions charged	-	68	68
Provision at 30 September 2022	-	50	50
Provision at 1 October 2022	-	50	50
Provisions utilised	-	-	-
Provisions charged	-	-	-
Provision at 30 September 2023	-	50	50

	2023 £000	2022 £000
Maturity analysis:		
5+ years	<u>50</u>	<u>50</u>
	50	50

16. Non-current other financial liabilities

	2023 £000	2022 £000
Loans	508	780
Deferred income	72	98
	<u>580</u>	<u>878</u>
Right of use lease liability	2,106	1,742
Loans		
	2023 £000	2022 £000
Total loans	761	1,018
Maturity analysis:		
Within 1 year	253	238
1 to 2 years	212	250
2 to 3 years	144	217
3 to 4 years	76	149
4 to 5 years	57	81
5+ years	19	83
Right of use lease liabilities		
	2023 £000	2022 £000
Total lease liabilities	2,288	1,943
Maturity analysis:		
Within 1 year	182	201
1 to 2 years	192	196
2 to 3 years	196	174
3 to 4 years	199	133
4 to 5 years	208	139
5+ years	1,311	1,100

In 2019, the Group entered into a loan agreement with Martinsville Henry County Economic Development Corporation for a 5 year term loan of \$240,000 (£195,000). The loan was secured against the reactor and Hardide plc acted as guarantor. In March 2020, Martinsville Henry County Economic Development Corporation determined to forgive the entire remaining loan balance of \$182,000 (£142,000) including, without limitation, principal, interest and any other sums due under the agreement. This grant is now being amortised as deferred income over the remaining useful life of the reactor.

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

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

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

17. Share capital

	2023		2022	
	Number 000	Value £000	Number 000	Value £000
Allotted ordinary shares of 4p each	58,902	2,356	58,902	2,356
Allotted deferred shares of 0.9p each	189,642	1,707	189,642	1,707

No employee share options were exercised during the year (2022: None).

A description of the Company's reserves is as follows:

Share capital –	represents the nominal value of shares that have been issued.
Share premium account –	includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.
Share-based payments –	this comprises the share-based payments reserve, debited or credited with amounts charged to the profit and loss account for share options.
Profit and loss account –	includes all current and prior period retained profits and losses.

18. Share options

	Number	Weighted average exercise price
Outstanding at 30 September 2022	4,345,522	44.9p
Exercisable at 30 September 2022	439,550	43.7p
Granted during year	-	-
Exercised during year	-	-
Lapsed during year	520,000	46.9p
Outstanding at 30 September 2023	3,825,522	44.6p
Exercisable at 30 September 2023	314,550	55.4p

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

	Number	Weighted average exercise price
Philip Kirkham (Chief Executive)	1,483,200	46.5p
Yuri Zhuk (Technical Director)	677,016	46.5p
Simon Hallam (Finance Director)	600,000	30.0p

None of the directors exercised options during the year.

In addition, Robert Goddard, the Group's former Chairman who was a director until 24 January 2023, holds 150,000 share options that were granted on 25 February 2021 at an exercise price of 31.0p. The Remuneration and Nominations Committee approved their continuation under the existing terms, with the extension of their potential date of exercise until three months after vesting.

The fair values of employee options granted are measured at date of grant by the use of a Black-Scholes pricing model, the assumptions used in the model vary depending on the date of grant and vesting period. Inputs include share price at date of grant, exercise price, historical volatility, the expected life of the option, and the risk-free interest rate. Expected volatility is calculated from the recent historical volatility of the share price. No other features are incorporated into the measurement of fair value.

All options have a maximum term of 10 years from date of grant and are settled with equity upon exercise. No options expired during the year. Vesting criteria are a mix of time-based and performance-based. The performance criteria are the market capitalisation or price per share of the Company, or Group profitability, or new business. At 30 September 2023 the weighted average remaining contractual life of all outstanding options was 6 years and 6 months (2022: 6 years and 6 months).

The charge to the income statement for share options during the year was £24,000 (2022: £9,000 credit).

19. Post balance sheet events

As described in more detail in the Chair's Statement, trading conditions became more challenging in the first part of the financial year ending 30 September 2024.

The Group is expecting to raise a further c.£0.75m of equity finance in February 2024.

20. Related party transactions

There were no related party transactions to report with either directors or key management other than those disclosed in note 6.

21. Capital commitments

At the Statement of Financial Position date, the Group had capital commitments of £11,000 for the purchase of equipment (2022: £19,000).

22. Financial Instruments – Risk Management

In common with other businesses, the Group is exposed to risks that arise from its use of financial instruments. The Group's principal financial instruments are financial assets comprising trade and other receivables (excluding prepayments) and cash balances; and financial liabilities comprising trade payables as disclosed in notes 13 and 14. These are all measured at fair value with changes in carrying amount charged or credited to the Income Statement, with the exception of borrowings which are measured at amortised cost.

Exposure to credit, liquidity, currency and interest rate risks arises in the normal course of the Group's business. The Group does not enter into derivative financial instruments.

Credit risk

The Group's credit risk is primarily attributable to its credit sales. The Group has significant concentration of sales to a few key customers, however, since the ultimate customers for the Group's products are predominantly blue-chip multinational companies, the board believes that this is not a significant risk. Credit risk also arises from cash and deposits with banks. These risks are reviewed regularly by the board, in particular the ageing of trade receivables and the amount of cash on deposit with various institutions. As at 30 September 2023 the Group had trade receivables and other receivables of £742,000 (2022: £955,000) and cash deposits of £740,000 (2022: £693,000).

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

Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The interest rate exposure of the Group as at 30 September 2023 and the maturity profile of the carrying value of the Group's financial liabilities are shown in note 14. All financial liabilities will be settled within six months unless stated in notes 15 and 16. The Group's policy is to ensure that it has sufficient cash to allow it to meet its liabilities. This risk is monitored by the board which receives forecast cash flows on a monthly basis, an annual budget and quarterly revenue and cost forecasts. The Group currently has no bank credit facility.

Currency risk

The Group is exposed to translation and transaction foreign exchange risk arising because the Group has operations in more than one country. As such, the Group's net assets arising from such overseas operations are exposed to currency risk resulting in gains or losses on retranslation into sterling.

Foreign exchange risks arise when Group companies enter into transactions denominated in a currency other than their functional currency. Movements in exchange rates also affect the value of the Group's foreign currency cash balances in the UK. Exchange rate movements during the year resulted in a loss of £38,000 (2022: £31,000 gain).

Interest rate risk

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

As at 30 September 2023, the Group had no floating rate borrowings, and all its cash deposits were in floating rate accounts.

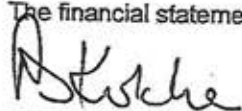
PARENT COMPANY STATEMENT OF FINANCIAL POSITION
For Hardide plc, company registered number 05344714
at 30 September 2023

	Note	2023 £000	2022 £000
Assets			
Non-current assets			
Investments	3	1,272	1,269
Total non-current assets		1,272	1,269
Current assets			
Trade and other receivables	5	161	214
Cash and cash equivalents		15	345
Total current assets		176	559
Total assets		1,448	1,828
Liabilities			
Current liabilities			
Trade and other payables	6	143	131
Financial liabilities	6	63	63
Total current liabilities		206	194
Net current (liabilities) / assets		(30)	365
Non-current liabilities			
Financial liabilities	7	94	156
Total non-current liabilities		94	156
Total liabilities		300	350
Net assets		1,148	1,478
Equity			
Share capital	8	4,063	4,063
Share premium		19,242	19,242
Retained earnings		(22,734)	(22,380)
Share-based payments reserve		577	553
Total equity		1,148	1,478

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 £354,000 (2022: £3,353,000) after accounting for a reduction in the provision against the intercompany loan of £2,260,000, an increase in the provision against the inter-company trading debtor of £565,000 respectively, and an exchange rate loss on intercompany loan of £1,096,000.

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

The financial statements were approved and authorised for issue by the Board on 21 February 2024.


Philip Kirkham
Director


Simon Hallam
Finance Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2023

	Share Capital £000	Share Premium £000	Share-based Payments £000	Retained Earnings £000	Total Equity £000
At 1 October 2021	3,942	18,854	562	(19,027)	4,331
Issue of new shares	121	388	-	-	509
Share options	-	-	(9)	-	(9)
Loss for the year	-	-	-	(3,353)	(3,353)
At 30 September 2022	4,063	19,242	553	(22,380)	1,478
At 1 October 2022	4,063	19,242	553	(22,380)	1,478
Share options	-	-	24	-	24
Loss for the year	-	-	-	(354)	(354)
At 30 September 2023	4,063	19,242	577	(22,734)	1,148

1. Principal Accounting Policies

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

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

The following principal accounting policies have been applied:
Financial Reporting Standard 101 - reduced disclosure exemptions

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

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

This information is included in the consolidated financial statements of Hardide Plc as at 30 September 2023 on pages 45 to 65.

2. Employees

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

	2023 Number	2022 Number
Management and admin	2	2
Sales and marketing	1	1
Technical	4	5
	<u>7</u>	<u>8</u>

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

	2023 £000	2022 £000
Wages and salaries	744	716
Social security costs	88	86
Employer pension costs	15	15
Share option charge / (credit)	21	(11)
	<u>868</u>	<u>806</u>

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

3. Investments

	2023 £000	2022 £000
Investments in subsidiaries	1,272	1,269

At 30 September 2023 the company held 100% of the share capital of the following subsidiaries:

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

4. Amounts owed by group undertakings

The amounts owed by Hardide Coatings Inc. amounting to £10,023,000 (2022: £12,283,000) has been classified as a non-current asset. A provision has been made for the full amount owed because of doubts about its recoverability. The reduction in debt provision during the year of £2,260,000 (2022: £651,000 increase) has been credited to the profit and loss account in the year.

5. Trade and other receivables

	2023 £000	2022 £000
Prepayments and accrued income	59	37
VAT receivable	27	17
R&D tax receivable	75	160
Amounts owed by group undertakings	4,712	4,147
Provision against amounts owed by group undertakings	(4,712)	(4,147)
	<u>161</u>	<u>214</u>

The amounts owed by group undertakings are unsecured and interest free, and are repayable on demand. A provision has been made for the full amount owed because of doubts about its recoverability. The increase in debt provision during the year of £565,000 (2022: £4,147,000) has been debited to the profit and loss account in the parent company in the year.

6. Current liabilities

	2023 £000	2022 £000
Trade payables	67	64
Social security and other taxes	30	28
Accruals and deferred income	46	39
	<u>143</u>	<u>131</u>
Loans	63	63
Total current liabilities	<u>206</u>	<u>194</u>

7. Non-current other financial liabilities

	2023 £000	2022 £000
Loans	94	156

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

8. Share capital

	2023		2022	
	Number 000	Value £000	Number 000	Value £000
Allotted ordinary shares of 4p each	58,902	2,356	58,902	2,356
Allotted deferred shares of 0.9p each	189,642	1,707	189,642	1,707

Details of the movement in share capital can be found in note 17 to the Group financial statements.