HARDIDE PLC – ACCOUNTING POLICIES

The group previously reported its financial statements under UK Generally Accepted Accounting Practice (GAAP). From 1 October 2007 the group is required to prepare its financial statements in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and Interpretations (IFRIC). The comparative data for the six months to 31 March 2007, and the year ended 30 September 2007, have been restated and reconciliations have been prepared to explain the changes. These financial statements are unaudited. The comparatives for the full year ended 30 September 2007 were based on the latest published audited accounts, but are subject to unaudited restatement to IFRS as endorsed for use in the European Union.

IFRS are subject to possible amendment by and interpretative guidance from the International Accounting Standards Board as well as ongoing review and endorsement by the EU and are, therefore, still subject to change. It is therefore possible that these figures may require amendment before their inclusion in the IFRS financial statements for the 12 months to 30 September 2008.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and the assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Although these are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

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.

Basis of consolidation

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

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

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

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

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

Revenue recognition

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

Research and development

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

Intangible assets: Goodwill

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

Goodwill arising on acquisitions before the date of transition to IFRS (1 October 2006) has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date and at least annually thereafter.

On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible assets: Development costs

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

Intangible assets: Other

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

Impairment of intangible assets

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

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

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is provided on the cost of assets less any residual value over their estimated useful lives, using the straight line method, as follows:

Plant & machinery	2 to 10 years
Leasehold improvements	Over remaining term of lease
Fixtures & fittings	4 years
Computer equipment	4 years

Depreciation is not charged on assets under construction.

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

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

Investments

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

Inventories

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

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

Net realisable value is based on the estimated selling price less estimated costs to completion and estimated costs necessary to make the sale.

Leases

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

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

Financial Instruments

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

Financial assets and liabilities are recognised on the group's balance sheet when the group becomes a party to the contractual provisions of the instrument.

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

Financial liabilities and equity

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

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

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Dividends and distributions relating to equity instruments are debited directly to reserves.

Equity instruments issued are recorded at the proceeds received, net of direct issue costs.

Compound instruments

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

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, and short-term deposits with an original maturity period of three months or less.

Trade and other receivables and payables

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

Foreign currencies

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

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

On consolidation, the assets and liabilities of the group's overseas operations are translated into Sterling at the exchange rate at the date of the balance sheet. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are classified as equity and are transferred to the translation reserve.

Exchange gains and losses arising on the translation of the group's net investment in foreign entities are also classified as equity.

Share-based payments

The fair value of equity-settled share payments is determined at the date of grant and is recognised on a straight line basis over the vesting period based on the group's estimate of options that will eventually vest.

Fair value is measured by use of a Black Scholes pricing model.

Retirement benefits

The group operates a stakeholder scheme for its employees, but no members have joined.

Short-term employee benefit costs

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

Taxation

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

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

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

Deferred tax is charged or credited in the income statement except where it relates to items charged or credited to equity, in which case the deferred tax is dealt with there.

Borrowings

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

Provisions

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